Programa de Fortalecimiento de las Microfinanzas Rurales (FOMIR/DAI)

Final Report

September 2003

Prepared for USAID/El Salvador
under Contract No. 519-C-00-99-00005-00

Revised May, 2004

Development *Alternatives,* Inc.
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814
Tel: (301) 718-8699 Fax: (301) 718-7968 Email: info@dai.com

FINAL REPORT
TABLE OF CONTENTS

FINAL REPORT FOMIR/DAI

EXECUTIVE SUMMARY

The Fortalecimiento de las Microfinanzas Rurales (FOMIR) project was designed by USAID El Salvador under the Rural Financial Markets Activity #519-0435 to address one of the intermediate results under the mission's Strategic Objective No. 1 –"Expanded Access and Economic Opportunity for Rural Families in Poverty". USAID's strategy was to expand access to microfinance products and services to the rural poor, and thereby enable them to take advantage of income-generating opportunitiesand contribute to the mitigation of El Salvador's overall poverty.

When USAID designed the RFM activity, a combination of factors impeded the supply of financial services to microenterprises in rural areas. These included an underdeveloped institutional and industry infrastructure; market inefficiency created by government support to weak public sector institutions that permitted them to lend at subsidized interest rates and achieve poor repayment performance; difficulties in stimulating the rural economy – and, more specifically, demand for financial services; and ongoing security problems in rural areas. USAID was concerned that the vast majority of rural households did not have access to a variety of financial service providers.

USAID/El Salvador contracted Development Alternatives, Inc. (DAI) in November 1998[1] to implement the major component of the Rural Financial Markets Activity. Under the RFM, the "Programa de Fortalecimiento de las Microfinanzas Rurales" or FOMIR/DAI initiated activities in January 1999. In July 2001, USAID amended DAI's contract to continue until September 30, 2003. The three major results areas defined for the RFM to be accomplished at the end of the fifth year, therefore, were to:

- Improve the degree of financial sustainability of at least six selected microfinance institutions and the operational sustainability of seven selected microfinance institutions by the end of year five;
- Increase the outreach of these institutions in rural areas by establishing at least 7 new branches by the end of year five that serve 20,000 new borrowers, and make at least 7,000 loans of $400 or less; and,
- Increase savings by at least $400,000 among 4,000 poor rural clientsthrough six secure savings institutions by the end of year five.

USAID's obligated $13,127,996 to the contract. Of the total, $4,123,140 was allocated to create and staff the Grants Management Unit that, during the five years of the project, implemented the grants application process, selected 11 local institutions for support, provided ongoing technical assistance, and managed the institutional development process and to the 11 grantees. The majority of USAID's investment - $9,004,856 - was to be disbursed in the form of grants to microfinance institutions (MFIs) that offer financial services to the rural poor and to microenterprise owners in rural areas. USAID's

[1] Contract No. 519-C-00-99-00005-00.

grant mechanism required that the assisted MFIs contribute resources valued at a minimum of 25% of the project. At the end of the projects, local counterpart contributions, valued at $13,517,518, exceeded the USAID's contribution.

A review of project results indicates that USAID's investment has had a positive and measurable impact on rural microenterprise clients; local financial institutions; and, although not part of the original design of the project, a marked impact on El Salvador's Microfinance Industry.[2]

IMPACT ON RURAL MICROENTERPRISE CLIENTS

The impact on rural microenterprise clients has been substantial and will continue providing positive returns over the next three years and beyond in terms of financial services for the rural poor. Of the total $9,004,856 million, USAID invested $6.76 million in helping selected MFIs provide direct financial services to microenterprise owners located in rural areas throughout the country.

Impact on Number of Rural Client Served	Baseline	September 30, 2003	Net Change
Total New Rural Clients Attributed to USAID Support	18,452	52,089	33,637
Total New Female Rural Clients attributed to USAID	14,134	32,807	18,673
Total Number of Rural Loans Disbursed below $400	15,409	25,751	10,342

The investment in 11 partner institutions added **33,637 new rural clients** that can be directly attributed to support provided by USAID through FOMIR/DAI. That translates into an 11% increase in access by rural microentrepreneurs (based on 1999 projection of 300,000 rural microenterprises by the Commission National for Micro and Small Enterprise). Female clients comprise 55% of new rural clients attributed to USAID support.

Over the life of the project, **75%** of the **new clients** added by partner MFIs were rural microentrepreneurs. Based on the national average of 1.6 employees per microenterprise, increased lending by FOMIR/DAI-assisted institutions to the 33,637 microentrepreneurs **strengthened 53,819 jobs** in rural areas.

The combined total urban and rural portfolio for the 11 partner institutions increased by **$57.4 million** during the project. In total, as of September 30, 2003, the 11 MFIs serve 109,871 clients, 75,126 who are rural with a total portfolio of $108.8 million. Given that most lending is in the form of working capital loans with 6-month terms, microenterprise owners today have access to approximately **$216 million** in loans annually from USAID-supported institutions.

[2] Readers should note that the original final report completed in August 2003 included outreach and impact data based on end of June 2003 results by the assisted MFIs. The Executive Summary of this report was update in May 2004 with data obtained from the MFIs as of the end of September 2003. The main body of the report has not been updated and includes data obtained in June, 2003.

In simple terms, project designers postulated that if project-assisted MFIs reached 20,000 rural poor persons with access to financial services, poverty in the country would decline. Poverty has declined in rural areas of El Salvador from 55.4% to 49.2% since 1999[3]. Does an increase in the number of rural borrowers necessarily mean a decrease in the level of rural poverty? Research and numerous case studies, including FOMIR conducted interviews with 260 rural microentrepreneurs, have demonstrated that timely**, ongoing access to financial services** can be expected to reduce poverty by:

- Smoothing consumption over income "peaks and valleys";
- Helping rural poor take advantage of increased productive opportunities;
- Improving management of risk by encourage productive investment; and,
- Assisting in the accumulation of physical and human capital.

In practical terms, microenterprise owners like the chicken farmer in Zacatecoluca (see text box) are rational; in other words, they choose to repay on time and to take new loans because they experience positive benefits of the loan.

> Trader of live and processed chicken in
> **Zacatecoluca**
>
> "When I borrowed from moneylenders, I always had trouble with them and I was always worried about repaying the loan. Now it's different. The loans are longer and the interest rate is lower. Now I have more products. I sell more and earn more. I have 5 people who help me – two of my children and 3 salaried workers. I have lowered the prices for the customers because I bought a manual processor and I can process the chicken much faster and sell more. Customers like the better price and they prefer to buy chickens from me."

Due to USAID's investment, rural microfinance clients today have more options for service among commercial banks, cooperatives, and credit unions, which have opened new points of service in rural areas. USAID-supported MFI's have opened **48 new rural points of services** throughout the country, bringing the total number of rural points of service to 77. The attached maps show growth of the rural network and distribution across the country.

Given the partner MFIs' increased levels of institutional sustainability, new products andbroader networks of service centers, an increased number of rural microenterprises will continue to benefit from sustainable access to high quality financial services. Due to USAID support, these MFIs are taking on new clients daily, and continuing to expand their rural portfolios. FOMIR/DAI expects the number of rural microenterprise clients to **increase by an additional 20,000 by September 30 2005,** bringing the number of rural microenterprises served to 95,126.

In terms of direct impact on rural families, USAID provided slightly more than $1 million to **2,521** rural microenterprise owners affected by the earthquakes in 2001. Grants of $400 helped poor rural families re-establish their enterprise activity and household income. USAID provided an additional $617,000 on focused and rapid technical assistance to MFIs located in earthquake-affected areas which lead to an **increased service to 5,110 clients in earthquake affected areas.**

[3] Fuente: Encuesta de Hogares de Propositos Multiples 2002

IMPACT ON PARTNER MICRO FINANCE INSTITUTIONS

"The technical, administrative and management staff (of FOMIR/DAI) provided critical support to our institution over the last four years. Their commitment and professionalism have been important to AMC in our search for better results. We feel very satisfied with the valuable technical and financial assistance provided by USAID to our institution.

----Oscar Armando Chicas, Senior Presidente-AMC:

USAID's impact on the partner MFIs is also evident in terms of improved service to clients, more efficient operations, better systems, increased transparency and accountability, and improved financial sustainability.

As of September 31, 2003, **nine** of the eleven **MFIs** assisted under the project are able to cover their **operational and financial cost** from operating income on an annual basis. As a result of ongoing USAID assistance, FOMIR/DAI assisted MFIs as of September 31, 2003 registered a weighted-average for portfolio at risk more than 30 days of 6.92%, demonstrating sound portfolio management.

USAID has demonstrated direct impact on the development of more **sustainable legal and operation structures** among MFI partners. Credit operations have been improved in all 11 partner institutions. Six institutions have significantly upgraded their management information systems and eight have new computer hardware. Both commercial banks assisted under the project have significantly upgraded service capacity in term of points of service an hiring and additional 51 loan officers. Partner MFIs have **added 180 new loan officers** since June 2001. ADEL Morazan and FUSAI, two NGO partners have established separate financial institutions as a result of USAID support and grown substantially. Most importantly, USAID assistance was critical to the transformation of a local credit union. The Superintendent of Banks indicated satisfaction with the institutional changes made by ACCOVI as part of the regulation process and is expected to approve ACCOVI as a **regulated institution** in the near future. This will allow ACCOVI to expand their savings services and their capital base.

> **"**In the name of the Consejo de Administracion for Accovi, we want to express the appreciation and satisfaction to FOMIR/DAI for providing us with services we found to be of excellent quality, dynamic and responsive to our needs. Our major objectives and goals for the next three years are to grow in number of microfinance clients through the recruitment of more credit officers and consolidate the regulation process that would lead us to maximize the financial disciplines and to reduce arrears."
>
> **--**Santiago Sanchez, General Manager-ACCOVI

To continue to expand outreach to the rural poor, and to re-establish the rural sector in El Salvador, USAID should continue to provide assistance to MFIs in the following areas:

- expand services to rural clients (farm families) who reside and engage in economic activities outside the urban centers;
- develop innovative, rural financial products that will deepen the supply of credit to rural families;

- expand competition for rural small business loans among partner MFIs, which will improve services and downward pressure on lending interest rates;
- strengthen and/or adopt new information and communication technologies that will benefit MFIs and their clients by expanding rural coverage and lowering the cost of servicing the sector;
- provide direct technical assistance to institutions considering change in status and those institutions who are applying for regulated status; and,
- open discussions with Government of El Salvador to review continued support of government owned financial institutions serving the small and microenterprise sector with subsidized credit.

IMPACT ON THE MICROFINANCE INDUSTRY

What started as a bowling tournament in 2001 ended as a national microfinance conference attended by 40 plus institutions and 200 participants in August 2003. Although not part of the initial design of the project, USAID support to the numerous microfinance institutions and active coordination of the key stakeholders has lead to **the emergence of El Salvador's microfinance industry.**

Today, as a result of numerous USAID financed "industry building activities", Managers and Directors of local MFI recognize the value in developing sector wide initiatives to address common problems.

USAID's creation of **MicroEnfoque,** the quarterly newsletter that provides information to the sector on the supply and potential demand for microfinance throughout the country is used by 50 MFIs to plan expansion strategies.

USAID's ongoing commitment to the development of local market-oriented **credit bureaus** has demonstrated real commercial success with two local bureaus, Dicom/Equifax and Infored, competing for institutional clients based on commercial terms.

> "FOMIR/DAI efforts to incorporate microcredit in local credit bureaus has been exceptional. Fomir support has allowed the institutions to make a better analysis of credit, reduce risks for the financial institutions and has benefited the country."
>
> "Due to FOMIR/DAI success and seminars for our managment, Dicom/Equifax has decided to introduce itself in the microfinance sector."
>
> *--Rafael Belloso, Sales Manager -DICOM*

With USAID support, FOMIR/DAI expanded **coordination** efforts in the sector, providing information on partner MFIs to the BMI, IDB, BCIE and donors. FOMIR/DAI has facilitated numerous introductions of potential investors with selected MFIs, and initiated planning meetings for sector wide training courses. USAID's capitalization program of $1.7 millions helped 4 MFIs **leverage $6.4 million in additional capital.**

The culmination of USAID's effort over the last five years were evident in the national microfinance conference held in August 2003 in conjunction with BMI, Conamype, Fundamicro and ASOMI.

A few of the key recommendations from the conference are listed below:

- Focus Government and donor assistance on expanding financial services to rural areas.
- Promote the creation of a microfinance industry round table with representation of government and other actors that plays an important role in coordinating financial assistance, institutional development, and technical assistance.
- Develop mechanisms that allow the sharing of information and benchmarks related to the industry by ALL actors. Create standards oriented towards providing information regarding industry performance.
- Establish policies and mechanisms that allow and promote the sharing of risk management information among regulated and non-regulated MFIs and transparency among the various actors that comprise the microfinance industry.
- Improve physical infrastructure, services, education, and health nationwide.

Overall Impact

When the FOMIR/DAI project closed on September 30, 2003 a core group of sustainable specialized MFIs and commercial banks remained committed to ongoing delivery of financial services to micro enterprises throughout El Salvador. USAID's investments in the sector created the momentum required for continued growth and expansion in terms of number of clients, products, and regional coverage. In August 2002, USAID contracted for an evaluation of the project. The evaluators concluded that "through the FOMIR activity, USAID has successfully strengthened eleven institutions offering microfinance products to the rural poor. The FOMIR model has been successful for this stage of development of the microfinance sector in El Salvador. The contractor deserves special recognition for this accomplishment. Focusing available resources on fewer institutions and focusing most resources on technical assistance and training has resulted in faster progress toward establishing long-term sustainable microfinance services."

In the end, these services support a substantial number of micro entrepreneurs throughout the country providing them with the critical resources they need to build a future one loan at a time. Three client success stories are included below:

Augustina Urbina, Ernesto Flores and Uber Elias Cruz all share a common history. Three years ago, each went looking for financial assistance to help them improve the lives of their families. All three were involved in microenterprise activities and knew they needed more working capital if they were going to generate more income for the family. But for the working poor, sometimes loans are hard to obtain.

Based in the department of Morazan in El Salvador, each approached Adel Morazan Creditos (AMC) to request a loan. AMC loan officers, using appraisal techniques developed with USAID technical assistance, analyzed the prospective clients "ability and willingness to pay" and based on a pledge by each client of a few household items as collateral, offered a loan to each. As a result, the three micro entrepreneurs have increased the income they bring home everyday and acquired assets that will help the family in the future.

Agustina Urbina received her first loan of $571 from AMC in November 2000 to purchase items she sold by walking around the streets of in Pasaquina. Her sales increased and she repaid the loan on time allowing her to obtain additional loans. Increased sales led to increased income which she used to purchase a permanent location for her growing business in the town park in Pasaquina. Today she is paying off her fourth loan of $1,143.00, her assets have grown to $2,300.00 and her monthly sales have grown by 50% to $1,800. She is using the earnings from her business to build her own house.

When **Ernesto Flores** approached AMC for his first credit of $343 in October 2001 to buy cows to produce milk products he was living in his brother's house. Today, the microenterprise owner from the small canton called Guachipilín is managing his fourth loan of $572.00. His monthly sales have gown to $1,400 and his assets have increased to $6,675. Most importantly, today he lives in the house he bought with income from his agro-enterprise.

In October 2001, **Uber Elias Cruz** was generating clothing sales of $1800 per month with stock of $2100. He used his first loan from AMC of $800 to buy clothing in bulk at discounted prices and as a result increased sales. Today he reports monthly revenue of $5,715, with stock of $3,200 and has ongoing access to a line of credit of $1,800. He has invested his increased income in expanding and upgrading his retail space.

The success stories of the three microenterprise clients provide insight into the lives of the 33,637 new rural clients assisted under USAID El Salvador's Fortalecimiento de Las Microfinanzas Rurales (FOMIR) project over the last five years. The charts below provides a breakdown of the $9,004,856 in grants invested by USAID over the last five years and the impact on rural clients, local MFIs and the microfinance industry.

USAID INVESTED

$6.76 million in 11 MFIs (an average of $608,000 per MFI).

IMPACT RESULTS

- **33,637 new rural clients** served directly attributed to USAID.
- Microenterprise owners today have access to **$216 million in loans annually** from USAID supported institutions, a 100% increase.
- **48** new rural points of service.
- Banks, cooperatives and NGOs **compete** for rural clients with expanded list of **credit products** offered at declining rates, and increased availability of **saving and remittance services.**
- 9 of the 11 partner MFIs are **operationally and financially** sustainable on a consistent basis.
- An overall **decline in arrears** among 11 partner MFIs from 9.02% to 6.05%.
- MFI plans to expand rural outreach by **20,000 microenterprise** clients by September 2005

USAID INVESTED

$1.72 million in Earthquake Assistance

IMPACT RESULTS

- **2,521** rural microenterprise owners received grants of $400 to re-established their businesses and household income. Pre-earthquake level of sales achieved within 24 months.
- PAG Program protected **4,033 jobs** and benefited **7,563 dependents.**
- Focused and rapid technical assistance to MFIs located in earthquake affected areas led to **increased service to 5,110 clients in earthquake affected areas.**

USAID INVESTED

$598 thousand in Microfinance Industry Initiatives.

IMPACT RESULTS

- **31 MFIs** contributing data to **MicroEnfoque**, market information used by **50 MFIs** to plan outreach strategies.
- **InfoRed** competing with **Dicom/Equifax** for institutional clients of credit bureau services
- **Eight accounting firms** with stronger MFI audit experience using improved portfolio and **MFI audit tools.**
- **4025 participants** in **16 MFIs** benefited from **163 courses** on topics related to credit, financial and operations management, marketing and planning.
- **Better coordination** among various development and commercial lenders interested in building investor and credit relationships with local financial institutions
- An emerging **microfinance industry** comprised of key stakeholders who understand the areas critical to development of a commercial MFIs in El Salvador and the region.

Lesson Learned

1. Is picking winners a sound strategy?

Historically USAID awarded grants to local MFI based on an assessment of the need of the target groups presented in MFI requests for assistance. USAID took a new tack when it designed the FOMIR project with the objective to identify those MFI best positioned to deliver sustainable services to rural microenterprise owners. The most obvious question that arises from this approach is "why provide a strong, proven institution like Calpia with a grant for technical assistance?" A simple response is that USAID provided assistance to Calpia because it was the best positioned institution to increase outreach to rural poor families with sustainable and below average costs of services.[4] A review of final outreach indicators confirmed that Calpia accounted for 32% of the total number of new rural clients and 20% of the credit below $400 generated by the project. A comparison of the cost of grant to new rural clients indicates that CALPIA was by far the most efficient MFI costing USAID only $30 per new client. The table below provides a summary of cost per new client for the 11 MFIs. Reader should note that during the life of the project, the number of clients served by CAM declined, resulting a negative costs per client.

Cost Per New Rural Client						
Affiliation	Institution	Baseline*	To 09/30/2003	Change	Grant Amount	Cost Per Client
IPC	Financiera Calpiá	0	10,673	10,673	$329,535	$30.88
ACCION	Integral	617	10,016	9,399	$989,743	$105.30
None	Banco Salvadoreño	103	1,865	1,762	$335,057	$190.16
None	Adel Morazán	1,368	5,841	4,473	$980,801	$219.27
Genesis	ASEI	860	3,645	2,785	$654,991	$235.19
None	Banco Agrícola	0	1,458	1,458	$386,328	$264.97
None	Acacsemersa	0	1,479	1,479	$510,015	$344.84
None	Accovi	0	1,665	1,665	$672,778	$404.07
None	Acacu	0	1,197	1,197	$669,777	$559.55
None	Fundación Duarte	0	1,547	1,547	$875,978	$566.24
FINCA	CAM	**15,504**	**12,703**	**(2,801)**	**$348,478**	**-$124.41**
		18,452	**52,089**	**33,637**	**6,753,481**	$ 200.78

It is clear from the table that the five of the MFI accounted for 86% of all new, active rural clients served during the project and that in terms of efficiency, Calpia, Integral and Banco Salvadoreno all generated new clients at cost less than $200 per clients.

But what happened with MFIs not provided with assistance under the project? Through MicroEnfoque, FOMIR reviewed outreach results of 19 MFIs during the period 2002 to 2003. Among the 19, only the NGO Enlace and Banco de Formento de Agropuegario produced substantial gains, with both adding 2,000 clients. None of the 17 other MFIs

[4] In 2002, FOMIR conducted an evaluation of effective interest rates charged by the 11 MFI assisted under the program. In general Calpia and the Credit Unions offered the lowest cost credit products. In four of the eight sample loans, CALPIA was the lowest cost provider in four of the eight sample loans.

added more than 400 clients with the average among the 17 non assisted MFIs being a net gain of 52 clients.

USAID's decision to provide grants to the MFIs best positioned to expand service generated expected results efficiently.

2. Are "Contracts" and effective and efficient mechanism to manage grant programs?

Washington based non-profit organizations have argued that funds from large "contracts" to for-profit consulting firms often result in financing expensive 'project management units' and other intermediary costs, leaving much less for MFI providers operating on the ground. DAI believes that it is naïve to suggest that a grant management unit is only responsible for disbursing funds on behalf of USAID. Effective management of large microfinance grant programs requires three areas of expertise; technical understanding of financial institutions and the financial sector, solid experience in managing complex institutional development programs and in depth understanding of US government contracting and reporting procedures (FAR guidelines). FOMIR experience confirmed Project management units defined as part of "contracts" generally provide higher level of accountability than cooperative agreements, as contractors are held accountable for program targets and proper management of the funds. In turn, contract or project management unit have proven effective in holding recipient MFIs and service providers accountable. Another concern voice by international NGOs is that using contractors to distribute grants leads to a "partial disengagement by the Agency from the operation of such programs. This could lead to lack of enforcement of best practices." In the case of El Salvador this is not true in that the CTO was not disengaged and actively involved in planning and monitoring the implementation process. Having a contractor manage the grant process also permitted programming decisions based on technical merits (that the contractor is accountable for) rather than political or social influence. Based on a review of final contract cost, FOMIR demonstrated an 11% cost of administration for the $12 million in USAID funds distributed or 5.5% of total budget of $24 million including counterpart contribution.

3. In terms of managing the MFI institutional development process, what worked and didn't work?

Below is a list of the most notable approaches FOMIR management found effective in working with local MFIs in El Salvador:

- Use exiting networks and affiliation to provide technical assistance and training to MFI. International and regional NGOs have been effective in developing their networks of affiliates and in doing so, transferred basic microfinance techniques. Rather than compete with these network or the historic affiliation MFI shared with regional or international organizations, FOMIR worked closely with the institutions to strengthen their relationship and provide quality technical assistance. FOMIR was active in promoting stronger affiliations between ACCION International and Integral, IPC and

Financiera Calipa, Genesis in Guatemala and ASEI, and FINCA International and CAM. This collaboration was particularly effective at ensuring continuity in technical assistance and was appreciated by the local MFI.

- Longer term consistent TA was more effective in transforming MFIs. The best example of this was the long-term technical assistance provided by FOMIR (through ACCION) to Integral. Over the two-year period, the long term advisor was critical in helping the MFI to upgrade the credit function, manage the change process and help Directors of the MFI recognize the need to establish a new financial institution.
- FOMIR's heavy-handed management of IT upgrades performed better than hand-off approach. A comparison of the on-time delivery of new software systems for the three credit unions with ongoing delays in the installation of self manage systems upgrades by AMC and Integral provide clear evidence that installation of new management of information systems requires experienced project management skills. Although MFIs have skilled managers in the delivery of financial services, they do not have managers experienced in IT project management.
- If planned correctly, new financial service product development need not take a long time. FOMIR experience working with seven MFIs to develop and introduce new housing products for microentrepreneurs resulted in new product being offered within five months following of the earthquakes in 2001.

The most notable approaches that did not deliver required results included:

- Use of multiple TA providers led to repetitive and sometimes inconsistent recommendations. FOMIR noted that increased project management time was required when an MFI was assisted by multiple advisers over a period of time. Often increased management time was required to brief new consultants on results of past consulting assignments and to ensure that client MFI were receiving consistent advice from the project.
- Introduction of new methods to deliver credit had limited impact. Helping local MFIs shifting from village banking to individual loans did not demonstrate sound results. Often the local MFIs were hesitant to make organizational changes required to implement new product lines, specifically in the need to establish new delivery processes and hire new managers to monitor new staff.

4. How long should donor assistance be provided to MFI's?

Donors should remain committed to ongoing assistance to the MFI sector when they have clear evidence is available that under-served areas of need exist within the sector, most notable characterized as clients lacking access. Donors are cautions not to fall into two common traps in estimating lack of access. The first trap is to define lack of access as the gap between the number of microenterprises within the country with known supply of microfinance services. Assuming that every micro entrepreneur demands credit overestimates demand. The second trap is assuming gap in demand means lack of access.

Conamype estimates that the number of micro enterprises in the country to be 512,887. FOMIR projects that **75-80% of these micro enterprises have access to credit** based on number of MFIs that target micro enterprise for services that also have points of service accessible to micro enterprise owners.

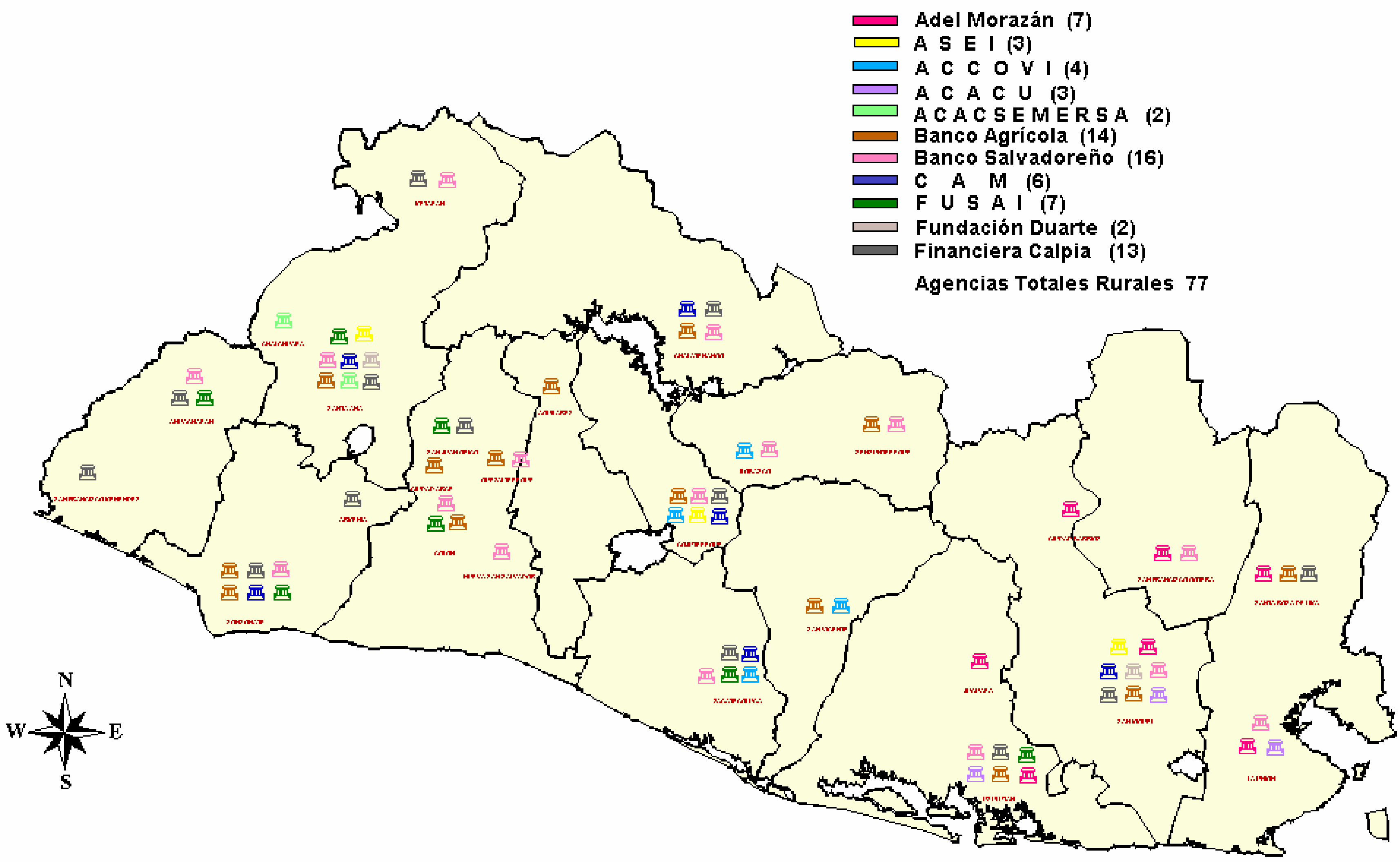
Access to credit for microfinance can be defined as the ability to obtain a loan from a registered MFI (banks included) for a profitable enterprise activity without regard for collateral coverage of the loan. Access to credit is determined by estimating the percentage of total number of micro enterprises in the country that could obtain a loan within a geographic area, say 10 miles.

From previous studies and surveys, FOMIR has determined that 129 financial institutions have 268 point of service, 98 of these in San Salvador. MFIs assisted directly by USAID over the last five years account for 77 rural points of service.

Given the amount of resources dedicated by many donors to expansion of microfinance network and points of service, FOMIR believes that today there are few locations and economically viable microenterprise owner who don't have access to financial services.

Ongoing support should also be provided to the MFI sector by donors when supply side analysis indicates a lack of a competitive group of regulated or soon to be regulated financial institutions. Consistent with experience gained in other emerging economies, the resources and time required to prepare even a well run MFI for regulated status are considerable. FOMIR experience in assisting the credit union ACCOVI indicated that specialized technical assistance over a 8-12 month period is required to prepare a MFI to meet regulation requirements. If the MFI is at the same time trying to expand services and upgrade internal systems and operation, the process will require at least double the time.

Proyecto FOMIR/DAI - Distribución de Agencias y Sucursales Rurales a Junio 2003



INTRODUCTION

When USAID designed the Rural Financial Markets Activity, a combination of factors impeded the supply of financial services to microenterprises in rural areas. These included an underdeveloped institutional and industry infrastructure; market inefficiency created by government support to weak public sector institutions that permitted them to lend at subsidized interest rates and achieve poor repayment performance; difficulties in stimulating the rural economy - and thereby demand for financial services; and ongoing security problems in rural areas. USAID was concerned that the vast majority of rural households did not have access to a variety of financial service providers.

The FOMIR project was designed by the mission to address one of the Intermediate Results under USAID/El Salvador's Strategic Objective No. 1 –"Expanded Access and Economic Opportunity for Rural Families in Poverty". In developing the project, USAID believed that expanding access of the rural poor to microfinance products and services would enable them to take advantage of income generating opportunities, thus contributing to the mitigation of the overall poverty of the country.

To expand access, the Mission understood that it needed to work with financial intermediaries. Since 1999, FOMIR/DAI has been assisting its partner banks, credit unions, and NGOs to strengthen operations, expand product lines and rural points of service, improve financially viability, create new organizational structures, and develop strategies for the future to foster sustainable access to financial services for rural micro enterprises. USAID/El Salvador contracted Development Alternatives, Inc. (DAI) in November 1998[5] to implement the Rural Financial Markets Activity. The RFM (identified as the "Programa de Fortalecimiento de las Microfinanzas Rurales/FOMIR-DAI" or FOMIR/DAI) initiated activities in January 1999. In July 2001, USAID amended DAI's contract to continue until September 31, 2003. The three major results areas defined for the RFM to be accomplished at the end of the fifth year, therefore, were to:

- Improve the degree of financial sustainability of six selected microfinance institutions and the operational sustainability of seven selected microfinance institutions by the end of year five;
- Increase the outreach of these institutions in rural areas by establishing at least 7 new branches by the end of year five, that serve 20,000 new borrowers, and make at least 7,000 loans of $400 or less; and
- Increase savings by at least $400,000 among 4,000 poor rural clients, served by six secure savings institutions by the end of year five.

USAID's total contract with DAI was for $13,127,996. Of the total, $4,123,140 was allocated to create and staff the Grants Administration Unit that implemented the grants application process, selected 11 local institutions for support, and managed the institutional development process in 11 grantees. The majority of USAID's investment -

[5] Contract No. 519-C-00-99-00005-00.

$9,004,856 - was to be disbursed in the form of grants to microfinance institutions (MFIs) that offer financial services to the rural poor and to microenterprise owners in rural areas

Having invested a significant amount of resources in building the sector, USAID deserves, in clear and simple terms, an analysis of the current and future impact of their investment. This report provides an impact assessment of FOMIR/DAI project activities in three areas: **Impact on Rural Microenterprise Clients**; **Impact on Institutions**; and, although not part of the original design, the **Impact on El Salvador's Microfinance Industry**. The final section of the report provides **lessons learned** during implementation of the project and a **breakdown on how the resources were allocated** among the numerous clients, institutions and industry initiatives.

Results reported in this report were taken from data obtained at the end of June 2003. The annex to this report provides outreach and sustainability indicators as of September 30, 2003.

IMPACT ON RURAL MICROENTERPRISE CLIENTS

An analysis of the impact of donor support to the microenterprise sector must begin with an appreciation of the role of microenterprise activity in the overall economy of El Salvador. Recent surveys indicate that there are 512,000 microenterprises[6] generating income for the urban and rural poor throughout the country. Based on FOMIR/DAI surveys and Financiera Calpia client data, the average microenterprise employs 1.6 people, suggesting that 819,200 people in the country depend on earnings or wages from microenterprise activity to clothe, feed and shelter their families. In comparison to other industries, microenterprises employ more than 10 times the number of people working in Maquillas (74,000 in 2002) and almost triple the number of public sector employees (294,858 in 1999). Clearly, the government and donors interested in building a stable economy in El Salvador must direct their attention and resources to this vital sector of the economy, a sector that provides income to one-third of families in the country, to ensure that microentrepeneurs have access to the critical inputs of financial services, infrastructure, and market information.

National Impact on Rural Microenterprises Clients

Since 1999, USAID through FOMIR has invested $9.04 million to provide substantial benefits to a target group—the rural poor—through assistance provided by intermediaries—Salvadoran microfinance lenders. USAID developed a set of indicators for measuring the project's impact on the selected MFI clients, and goals to be achieved by September 30, 2003. These indicators and FOMIR/DAI results are summarized below (results as of June 30, 2003).

USAID Target for Rural Poor Clients	FOMIR/DAI Results
• Serve 20,000 new rural borrowers	• 31,946 new rural borrowers
• Make 7,000 loans for $400 or less	• 10,950 loans made for $400 or less
• Increase savings by 4,000 rural clients for at least $400,000	• 7,804 new rural clients saving a total $794,186
• Open at least 7 new points of services for rural clients	• 48 points of service have been added bring the total number of points of service to 77.

Five years after commencement of the FOMIR/DAI Project, rural families in El Salvador now have significantly more options to obtain financial services, both in terms of varying products and institutions.

- Today, 104,999 clients are served by FOMIR/DAI's 11 partner institutions. Seventy percent or 73,974 of total clients are rural. Of those, **31,946 new rural clients** can be directly attributed to support provided by USAID through FOMIR/DAI.
- Over the life of the project, **8 of 10 new clients** added by partner MFIs were rural microentrepreneurs. Based on the national average of 1.6 employees per

[6] Encuesta de Hogares de Propósitos Multiples, 1999, MINEC

microenterprise, increased lending by FOMIR/DAI assisted institutions strengthened 51,113 jobs in rural areas. The majority of these jobs are in retail enterprises.

Financed partly by resources provided by the 7,804 new active rural depositors, and supported by stronger relationships with commercial sources of capital, the small and micro loan portfolios of FOMIR/DAI MFIs grew by more than $50 million, from $51 to $101.8 million between 1999 and 2003. Given the fact that a high percentage of lending is in the form of working capital loans with 6-month terms, microenterprise owners today have access to **$200 million** in loans annually from USAID-supported institutions.

At the beginning of the project, the eleven MFIs provided services to microenterprise owners outside San Salvador from 29 branches. Since then, USAID partner MFI's provide microenterprise loans from **48 new rural points of services** throughout the country bringing the total number of rural points of service to 77. Banco Agricola and Banco Salvadoreno account for 27 of the new points of service having trained and deployed new credit officers to existing branches in rural areas. The table below shows the distribution across the country.

Listing of Total and New Points of Service by Department		
La Libertad: 9 (7 new)	Ahuachapan: 4 (4 new)	Sonsonate: 7 (3 new)
Santa Ana 11: (6 new)	Chalatenango 4 (4 new)	Morazan 2 (1 new)
San Miguel: 9 (5 new)	Cabanas: 4 (3 new)	San Salvador 1: (1 new)
La Union: 6 (5 new)	Cuscatlan: 6 (2 new)	San Vicente: 2 (1 new)
Usulutan:7 (4 new)	La Paz: 5 (2 new)	Total: 77 (48)

In simple terms, project designers postulated that if project-assisted MFIs reached 20,000 rural poor persons with access to financial services, poverty in the country would decline. A recent assessment[7] concluded that poverty has declined in rural areas of El Salvador from 55.4% to 49.2%. The question remains: Does an increase in the number of rural borrowers necessarily mean a decrease in the level of rural poverty?

To answer this question, FOMIR-DAI carried out a study[8] in February-March 2002 in order to obtain and analyze the opinions and perceptions of microfinance clients regarding the impact of their loans. The findings of focus group interviews with 260 mircroenterprise owners definitively perceive real impact at the level of the microenterprise and the household as a direct result of access to ongoing sources of credit. A loan acts as an injection of fuel that propels the business into higher levels of income and profit. Higher income in the business sets in motion a series of positive multipliers throughout the business and the family.

The infusion of working capital enabled the microentrepreneur to expand the quality and quantity of inventory and to increase sales. In addition to increasing sales, borrowers also lowered transaction and input costs, which increased revenue and profit. Higher income means asset accumulation, which permitted the borrower to smooth cash flow

[7] Fuente: Encuesta de Hogares de Propositos Multiples
[8] See Report by Hillary Miller of DAI submitted to USAID El Salvador in March 2002.

fluctuations and weather external shocks. Worth note is the fact that many borrowers commented that often they used increased income derived from the loan and corresponding sales to diversity their microenterprise activity, opening a second point of sale with a different product. The loan permitted the borrowers to diversify their risk and increase income through supplementary income generation strategies. For example:

- A woman in Cojutepeque made tortillas prior to her loan. With the borrowed capital, she retailed soccer equipment, and purchased a propane stove and opened a bakery with her son.
- Another client in Ahuachapán had a market stall (*tiendita*) selling records, tapes and books. She saw an opportunity to purchase another stand and to sell in a different part of the market. With a combination of earned income and the loan, she purchased the site for $1,485, furnished it for $800 and stocked it for $1,715. She has hired one full-time employee to manage one stall while she manages the other.

Higher income in the business also translated to positive impact at the household level. Borrowers overwhelmingly reported improved family welfare, as measured by increased and consistent spending on education, health care, nutrition, housing and basic utilities. In addition, borrowers were able to smooth consumption over time because they had more capacity to face unanticipated expenses that tended to deplete family savings.

The reduction of financial strain on the family yielded a greater sense of security among family members and improved family cohesion. Particularly women said they are more respected by their family members and have greater independence and self-esteem.

The positive impact created by access to credit is supported not only by the findings of this study, but by the high repayment rates and repeat loans taken by the borrowers. Microenterprise owners are rationale, they choose to repay on time and to take new loans because they experience positive benefits of the loan. The client impact evaluation conducted by FOMIR-DAI strengthens this conclusion with clear and overwhelming qualitative data.

Impact on Rural Microenterprise Clients Affected by the Earthquake of 2001

In response to earthquakes that occurred in El Salvador in early 2001, USAID El Salvador earmarked and provided additional funding totaling $1.72 million to FOMIR/DAI to design and launch a program that would provide grants to affected microenterprise owners. The Productive Asset Grant (PAG) Program was designed to help micro-entrepreneurs re-establish their income-generating activity through the provision of one-time grants.

Below are targets anticipated by USAID and FOMIR results.

USAID Target for Rural Poor Clients	FOMIR/DAI Results
• 2500 earthquake affected microenterprises provided with $400 grants to re-establish income generating activity	• 2,521 earthquake-affected microenterprises provided with $400 grants to re-establish income generating activity. • Sales by earthquake grantees surpassed pre-earthquake sales levels by December 2002.
• Ensure continued service to microenterprises located in earthquake affected areas	• Financial service by partner MFIs to microenterprises located in earthquake affected areas increased by 35% from 14,858 to 19,968 or an increase of 5,110 rural active clients.

From October 2001 until the end of March 2002, the PAG program provided $400 grants to 2,521 microentrepreneurs (76% female) located in the five departments severely affected by the earthquake, namely Usulutan, San Vicente, La Paz, La Libertad, and Cuscatlan. The provision of in-kind grants by USAID through the PAG program contributed directly to the reactivation of micro enterprise activity, primarily in the areas of sales.

The PAG-supported microentrepreneurs reported monthly sales of $1.35 million prior to the earthquakes. Sales fell drastically to $552,800 immediately after the earthquakes. After the PAG effort started, sales nearly doubled to $1.14 million in May 2002. Projected growth reached $1.45 million by December 2002, indicating that USAID assistance through PAG contributed significantly to restore economic growth of the microenterprises in less than two years. At the household level, the PAG microentrepeneurs on average generated increased sales of $2,868 over two years and resulted in a $489 increase in income. USAID's PAG program helped to protect over 6,000 jobs within these microenterprises. Further, grantees of the PAG Program reported on average 3 dependents, indicating that the PAG Program directly benefited 2,521 beneficiaries and an estimated 7,563 dependants.

USAID's focused and rapid assistance to MFIs located in earthquake-affected areas led to increased service to affected clients. The seven partner MFIs that provided credit in Usulutan, San Vicente, La Paz, La Libertad, and Cuscatlan reported 14,858 rural active clients as September 30, 2001. As of the June 2003, the number of rural active clients served by these seven MFI's has increased by 35% from 14,858 to 19,968 or an increase of 5,110 rural active clients. The seven supported institutions all reported an increase in the number of clients serviced in earthquake affected areas.

Continued Impact on Rural Microenterprise Clients

As noted, USAID invested a total of $8.42 million over the last five years in direct and indirect assistance to microenterprise owners located in rural areas throughout the country. The majority of the resources ($6.7 million) were directed toward expanding outreach and improving sustainability of selected microfinance institutions, who in turn added 39,815 new, total rural clients (31,946 directly attributed to FOMIR/DAI). In total, the 11 MFIs serve 104,999 clients, and 73,974 are rural. MFIs today have portfolios of over $101 million, 80% of which is focused on microenterprise). Due to USAID support these MFIs are taking on new clients daily, continuing to expand their rural portfolios. The measurement of USAID impact on rural, poor clients is far from complete.

Given increased levels of institutional sustainability, new products and broadened network of service centers by partner MFIs, an increased number of rural microenterprises will benefit from sustainable access to high quality financial services. FOMIR/DAI expects the number of rural microenterprise clients to increase by an additional 30,000 by September, 2005 bring the number of rural microenterprises server to over 104,999.

These clients should benefit from increased access and improved service at a lower cost. In late 2002, FOMIR conducted a study of interest rates offered by partner MFIs and found that the cost of credit for all borrowers is close to the published nominal rates (36-48%). The cost differentials between first time borrowers and other clients are significant. Cost of credit for experienced borrowers could be up to 18% annualized lower than the costs for first time borrowers reported in the survey, which ranged from 36.7% to 89.6% annualized.

As a response to the FOMIR study, MFIs have reviewed their rates with some MFI deciding to lower rates lowered their rates. Financiera Calpia and Banco Agricola both lowered their interested rates in 2003. At the end of 2002, Banco Agricola noted that growth in the microfinance portfolio was slowing down due to increased competition and asked FOMIR for assistance in rationalizing its overall micro and small product line. In June 2003, FOMIR organized meeting with two of the Bank’s Vice Presidents and Manager of Micro and Small Enterprise Credit were recommendations were presented that would improve efficiency and lower risk. In August, BA made the final decision to lower interest rate to microenterprise clients from 34% to 18%-24% (based on client rating).

FOMIR believes that as competition continues to increase among MFI for good clients, interest rates and fees will decline.

IMPACT ON MICROFINANCE INSTITUTIONS

The principal objectives of the FOMIR/DAI project were to improve the performance and sustainability of 8 to 10 microfinance institutions serving rural areas of the country, increase the outreach of micro credit services, and increase the availability of rural savings services. Included in these major results areas, the project was expected to reduce delinquency rates to less than 10 percent and to help a minimum of 5 non-governmental organizations to have access to commercial sources of funding by the end of year five.

Rural finance clients prefer options in accessibility, terms and conditions, and institutional type. Ideally, these options would be available in a competitive environment, but USAID realized that much work needed to be done before competition for rural clients would occur. Designed as an institutional development initiative, USAID and FOMIR/DAI program managers recognized the need to attack the constraints associated with providing sustainable rural financial services by expanding the number and type of institutions serving the rural microfinance sector.

In 1999 and 2000, FOMIR/DAI implemented formal grant solicitation processes designed to identify those institutions best positioned to expand the delivery in rural microenterprise services. During the first round, 70 local institutions applied for grants under the program. FOMIR/DAI management reviewed each proposal, conducted sight visits to those institutions most promising, and presented their evaluation and ranking to a grants committee comprised with local microfinance experts. The committee ultimately recommended seven institutions to receive grants. Subsequently USAID approved grants to the following institutions:

1. ADEL Morazan
2. Asociación Salvadoreña de Extensionistas Empresariales del INCAE – ASEI
3. Centro de Apoyo a la Microempresa –CAM
4. Financiera Calpia
5. Fundacion Jose Napoleon Duarte
6. Fundacion Salvadoreño de Apoyo Integral
7. Banco Desarrollo (subsequently purchased by Banco Agricola)

During the second year, 22 institutions were considered for grants following the same process and four were selected for grants including:

8. Banco Salvadoreño
9. Cooperativa Financiera Unión – ACACU de R.L.
10. Cooperativa Financiera La Principal -ACACSEMERSA:
11. Cooperativa Financiera Dinámica, ACCOVI de R.L.

Successful institutional development is based on developing and implementing a coordinated program of technical assistance, training, and capitalization that strengthens the long-term capacity of the selected institution to deliver rural microfinance services. For each of the past four years, FOMIR has developed and implemented annual work plans with the 11 partner institutions. These activities have been described in various documents, including project annual work plans and quarterly reports. As part of project close-out, FOMIR prepared and submitted to USAID final reports on each grantee institution.

Included in this report are final, consolidated, results for the 11 grantee institutions that demonstrate USAID's direct impact on outreach, profitability and sustainability of rural financial service providers.

FOMIR/DAI's end of project target for FY 2003 is 20,000 new rural active borrowers. At the end of the third quarter (fiscal year), FOMIR-assisted microfinance institutions (MFIs) currently have 50,398 active rural borrowers and 31,946 new active borrowers, a 173% increase over the baseline. Women constitute 32,988 or 65.45% or of the current rural active rural clients.

Rural Clients	**Rural Active Loans**			
Institution	Baseline*	To 06/30/03	Women Borrowers	Change
Adel Morazán	1,368	5,544	3,411	4,176
Financiera Calpiá	0	9,008	1,674	9,008
Fundación Duarte	0	1,519	1,234	1,519
ASEI	860	3,802	3,197	2,942
FUSAI	617	9,249	6,843	8,632
CAM	15,504	14,515	11,778	(989)
Banco Agrícola	0	1,294	1,049	1,294
Banco Salvadoreño	103	1,576	1,286	1,473
ACACSEMERSA	0	1,457	921	1,457
ACACU	0	997	635	997
ACCOVI	0	1,437	960	1,437
Totals	**18,452**	**50,398**	**32,988**	**31,946**

In terms of loans disbursed for amounts of less than $400 to rural clients, grantee institutions registered 26,359 loans as of June 30, 2003, an increase of 10,950 from the baseline.

USAID uses loans below $400 as a proxy measure of loans targeted to the poor. FOMIR/DAI surpassed the end of project target of 7,000 by 3, 950.

Rural Loans of $400 or Less							
Institution	Baseline*	To 06/30/2003	Change	Baseline*	Total Women	Increase	Percent of women receiving loans below $400
Adel Morazán	349	1,957	1,608	206	1,298	1,092	66.33%
Financiera Calpiá	0	1,925	1,925	0	745	745	38.70%
Fundación Duarte	0	990	990	0	838	838	84.65%
ASEI	889	3,708	2,819	705	3,117	2,412	84.06%
FUSAI	56	3,835	3,779	22	3,247	3,225	84.67%
CAM	14,115	11,807	(2,308)	11,292	9,605	(1,687)	81.35%
Banco Agrícola	0	367	367	0	298	298	81.20%
Banco Salvadoreño	0	727	727	0	628	628	86.38%
Acacsemersa	0	417	417	0	330	330	79.14%
Acacu	0	212	212	0	162	162	76.42%
Accovi	0	414	414	0	330	330	79.71%
	15,409	26,359	10,950	12,225	20,598	8,373	78.14%

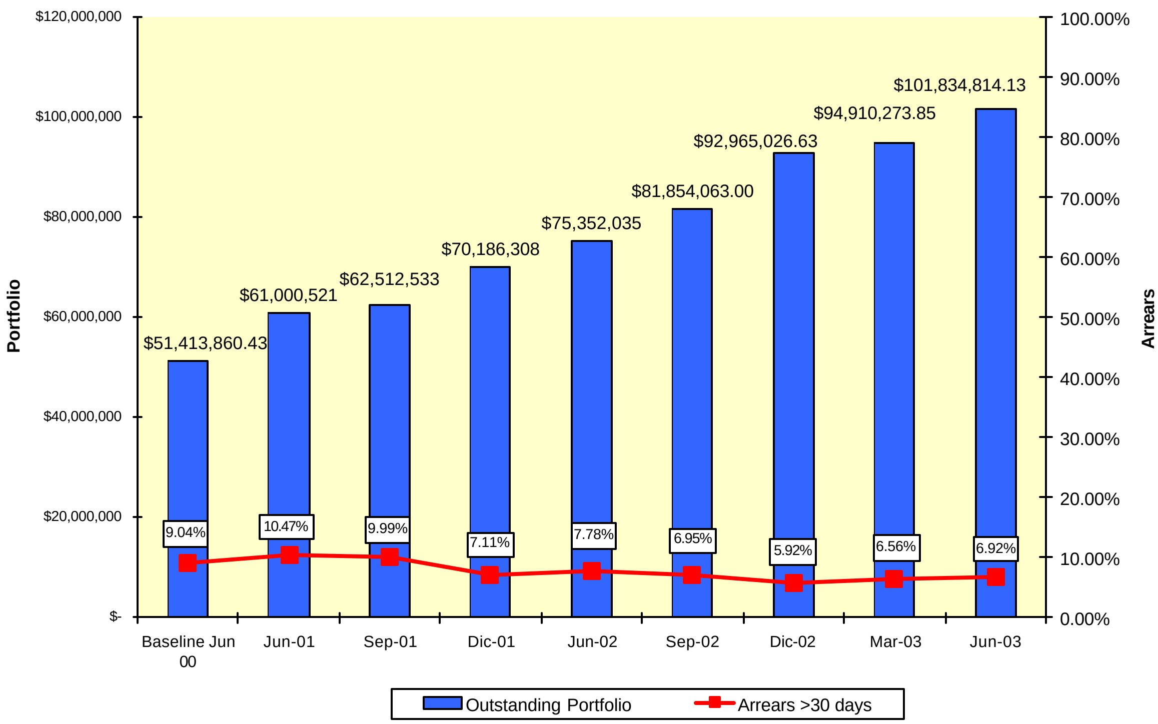
The number of rural active depositors at the end of the project was 7,804. The end-of-project target was 4,000 rural depositors.

Rural Active Depositors **							
Institution	Baseline *	To 06/30/2003	Change	Baseline*	Total Women	Increase	Percent of women depositors
Financiera Calpiá	0	1,589	1,589	0	905	905	56.95%
Banco Agrícola	0	1,377	1,377	0	950	950	68.99%
Banco Salvadoreño	0	1,429	1,429	0	1,228	1,228	85.93%
Acacsemersa	0	1,024	1,024	0	698	698	68.16%
Acacu	0	983	983	0	638	638	64.90%
Accovi	0	1,402	1,402	0	981	981	69.97%
	0	7,804	7,804		5,400	5,400	69.20%

*The number of depositors for Banco Agrícola, Banco Salvadoreño, Acacsemersa, Acacu and Accovi is calculated based on the number of new rural clients of active microcredit loans with deposit accounts.

In terms of overall urban and rural portfolio, the 11 MFI's served by the project reported a less than 2% increase in total portfolio during the quarter, bringing the total amount of credit outstanding to $101.8 million. Today, 104,999 clients are served by FOMIR/DAI's 11 partner institutions, 73,974 are rural microfinance clients.

Arrears and Portfolio Monitoring to June 2003



Results against each outreach indicator are presented in the table below.

RESULTS: INCREASED OUTREACH

Target Indicator	Year Five Targets	Year Five Third Quarter	Comments
No. of new branches/agencies serving rural clients	7	48	• (6) CALPIA opened a new agency in Ahuachapán in 1999, Metapán in March 2000, and Cara Sucia and San Juan Opico in 2001. Santa Rosa de lima in April and Armenia in June 2003. • (2) CAM opened a new agency in Zacatecoluca in 2000 and Chalatenango in May 2003 • (6) ADEL Morazán opened new branches in Ciudad Barrios in 1999 and in Santa Rosa in 2000. • (2) ASEI opened branches in Santa Ana and Cojutepeque • (14) Banco Agrícola commenced microfinance lending in 11 rural branches in 2000, in Chalatenango in 2001 and in Sonsonate and San Vicente in 2003. • (13) Banco Salvadoreño increase microfinance lending to 10 branches during the last quarter. • (2)FJND opened new agencies in Santa Ana and San Miguel in 1999. • (1) FUSAI opened branches in Ahuachapán and Colon in 2002 • (2) ACACSEMERSA opened a branch in Chalchuapa in December 2002.
No. of NGOs obtaining commercial bank funds	5	5	• CAM has access to and use of commercial bank financing. • ASEI, ADEL, FUSAI and FJND have obtained commercial bank financing through a capitalization mechanism.
No. of new active rural borrowers	20,000	31,946	• See table above.
No. of new rural loans of $400 or less	7,000	10,950	• See table above.
Savings			
No. of secure savings institutions offering services to rural clients	6	6	• CALPIA offers savings in rural areas. • Banco Agrícola and Banco Salvadoreño offer savings in rural areas to clients in their microfinance portfolios. • ACACU, ACOVI, and ACACSEMERSA all offer savings.
No. of active depositors	4,000	7,804	This represents CALPIA's number of rural savers in two agencies receiving direct assistance from FOMIR and the number of increased borrowers in Banco Agrícola, Banco Salvadoreño, and the CU's as a result of the microlending program.
Growth in savings accounts (in U.S $)	$400,000	$794,185.58	As reported by CALPIA in two agencies and Banco Agrícola, Acacsemersa, Acacu and Accovi for saving amounts of new active rural borrowers.

RESULTS: SUSTAINABILITY INDICATORS

FOMIR measures financial sustainability by the ability of the organization to collect sufficient revenues from clients to cover the full opportunity cost of its activities, including financing at commercial rates. A financial institution whose revenues cover all of its operational costs but not its financial costs is considered to be operating at operational sustainability. The table on the following page provides information on the sustainability and portfolio risk management indicators for FOMIR grantees.

Target Indicators	Targets End of Year Five	Year Five Third Quarter Actual	Comments
No. of institutions that are operationally sustainable	8	9	• ASEI reports operational sustainability ratio of 84.96% as of 06/30/03. • CALPIA reports operational sustainability ratio of 106.93% as of 06/30/03. • FJND reports operational sustainability ratio of 68.51% as of 06/30/03. • ACACU reports operational sustainability of 118.55% as of 06/30/03. • ACACSEMERSA reports operational sustainability of 117.80% as of 06/30/03. • CAM reports operational sustainability of 128.22% as of 06/30/03. • FUSAI/Integral reports operational sustainability of 104.59% as of 06/30/03. • ACCOVI reports operational sustainability of 117.12% as of 06/30/03. • ADEL/AMC reports operational sustainability of 103.06% as of 06/30/03. • Banco Agrícola and Banco Salvadoreño are operationally sustainable.
No. of financially sustainable institutions	7	8	• ASEI reports financial sustainability of 82.12% as of 06/30/03. • CALPIA reports financial sustainability of 99.97% as of 06/30/03. • FJND reports financial sustainability of 68.34% as of 06/30/03. • CAM reports financial sustainability of 118.76% as of 06/30/03. • ACACSEMERSA reports financial sustainability of 105.86% as of 06/30/03. • ACACU reports financial sustainability of 112.39% as of 06/30/03. • FUSAI/Integral reports financial sustainability of 103.82% as of 06/30/03. • ACCOVI reports financial sustainability of 111.58% as of 06/30/03. • ADEL/AMC reports financial sustainability of 101.14% as of 06/30/03. • Banco Agrícola and Banco Salvadoreño report financially sustainable in their microfinance product line.
% of portfolios more than 30 days past due	<10%	• 8.58% • 2.21% • 6.92 • 10.35% • 10.79% • 10.61 • 6.68% • 2.08% • 4.51 • 8.05 • 22.83%	• ADEL • CALPIA • FUSAI • ASEI • FJND • CAM • Banco Agrícola (only MF line) • Banco Salvadoreño (only MF line) • ACACSEMERSA • ACACU as of 05/31/2003 • ACCOVI
No. of improved statutes of financial institutions	6	6	• ADEL Morazán separated its microfinance program from its other activities and registered AMC as a savings and credit society. • FUSAI has separated credit operations, acquired new portfolio, and modified its credit technology. They have also registered Integral as a finance company. • FJND has improved financial management capacity, reporting, and has begun to allow men in rural areas to access loans. • ASEI created a new organizational structure including the creation of a board finance committee, reorganization of the finance and administrative function, and strengthening of credit operations. • ACCOVI has complied with the regulation requirements of the superintendent, and awaits final word on its regulated status. • Banco Salvadoreño has adopted new microfinance product line, management structures with additional coordinators, and an incentives scheme.

FOMIR/DAI succeeded in reaching end of year five targets ahead of schedule in operational and financial sustainability, delinquency, outreach, and savings. FOMIR/DAI assisted MFIs registered a weighted-average for portfolio at risk more than 30 days of 6.92%, demonstrating sound credit management.

Results of MFI Development

What will be the impact of FOMIR/DAI services in the future? Certainly a larger number of rural microenterprise owners with access to financial services, but the key is sustainable services to the rural poor. Financial results provide a quick snapshot of profitability and sustainability. To deepen the analysis, it is important to evaluate the qualitative variable involved in long term success in delivering financial services understand the characteristics that indicate management capacity to provide sustainable services.

Outreach: The objective of the Rural Financial Markets Activity was to promote sustainable growth of financial services to the rural micro enterprise sector. Towards this objective, USAID and FOMIR appreciate the fact that healthy portfolio development means managed growth. As of June 30, 2002, although FOMIR exceeded both the contract and cumulative total for new rural loans, only six of the eleven institutions achieved the targets of outreach agreed between each MFI and the USAID when agreements were extended for the final year of the project. These included FUSAI, AMC, ASEI, FJND, CALPIA and ACCOVI. The five that did not meet their targets included Banco Salvadoreno, Banco Agricola, CAM, and the credit unions ACACU and ACASEMERSA.

Field Officers: As a result of USAID assistance the 11 partner institutions have added 190 credit officers/promoters bringing the total number of to 436 field officers. Seven of the eleven MFIs have loan officers to client ratios of less than 200 clients, low by best practice standards. During the last three years, the number of field officers among partner institutions has grown by 81%.

Points of Service: Since joining the project the 11 partner MFI's have opened 48 points of services throughout the country bringing the total number of rural points of service to 77. Clearly the project has been successful in establishing a broader network of access points that supply finance to the rural poor.

Products: Competition often breeds innovation. In efforts to expand their rural finance portfolios, all of FOMIR/DAI's partner institutions have confronted the need to develop and introduce new products. As a result of the USAID support, partner institutions offer a variety of credit products, including: individual, solidarity groups, and village bank working capital loan products; seasonal loans; automatic loans; loans for farming households; housing loans; reconstruction loans; and small business loans. The institutions also expanded savings, transfer and remittance products and services specifically for rural families.

Status of New Systems: Systems and policies related to credit management operations have been firmly established in all eleven MFIs assisted by the project. Final revisions (based on lessons learned) will be completed by the end of the FOMIR project.

During the past two years, FOMIR has systematically reviewed the audited financial statements of all non-bank grantees and provided MFIs and their auditors with specific recommendations on how to strengthen their external audit process. FOMIR also met with internal audit departments of the two banks that work with the project to discuss internal audit procedures and nuances for auditing the microfinance portfolio.

Stronger human resource systems have been developed and installed in 10 of the 11 MFIs (Calpia required no assistance in this area). These systems include revised organizational charts, clearer and more detailed position description, and new or improved incentive schemes. A program to build internal credit training capacity is currently underway in all 11 MFIs

During the past four years, all eleven MFIs supported by the project have strengthened or acquired new information technology and communications (ITC) systems. Eight MFIs were provided with computer equipment based on FOMIR-developed ITC-upgrade plans. Six MFIs purchased new financial service software systems from outside vendors. Four (including the banks) modified and/or upgraded existing system to generate improved management reports. One developed financial service software in-house.

Although significant progress has been made, it would be misleading to suggest that each of these systems would be firmly established and fully functional in each of the MFIs at the end of the project. Even the two commercial banks and Calpia continue to modify their financial reporting systems to produce required management and regulation reports.

To Regulate or Not to Regulate: Financiera Calpia is due to complete the transition to Banco Calpia by the end of 2003. Among the other non-bank MFIs served by the project, only ACCOVI engaged in a process with the Superintendent to become regulated. As the first credit union to undertake the regularization process, ACCOVI has been both a pioneer and victim of the sometime unclear norms and procedures. Most importantly, USAID assistance has been critical to the transformation of the local credit union. The Superintendent of Banks indicated satisfaction with the institutional changes made by ACCOVI as part of the regulation process and is expected to approve ACCOVI as a regulated institution also by the end of 2003.

As of Sepember 30, 2003 there are a core group of sustainable, specialized MFIs and commercial banks offering financial services to micro enterprises throughout the country. Due in large part to USAID's investment, the momentum has been established continued growth and expansion in terms of number of clients, products, and regional coverage.

FOMIR Institutional Support Following the Earthquakes

A substantial percentage of the clients of the four microfinance institutions (MFIs) were severely impacted by the series of earthquakes that struck El Salvador in January and February 2001, and posed a risk to their financial solvency and stability. These included Calpia, Accovi, CAM and ASEI. Coping with the crisis required a concerted effort on the part of USAID/El Salvador, the FOMIR/DAI project, and the MFIs themselves.

FOMIR/DAI shifted to crisis management mode following the earthquakes: temporarily changing its role and mission to helping the MFIs understand and cope with the crisis rather than continuing to build outreach and expand the portfolios. USAID/El Salvador's flexibility in granting permission to assist the institutions outside of the original project design proved essential for carrying out this crisis management function. USAID/El Salvador requested FOMIR/DAI to establish a new element related specifically to managing the crisis, to engage a series of studies and consulting assignments to help the MFIs develop appropriate responses to the crisis, and to provide financial reports on approximately $1.7 million allocated to earthquake relief. USAID/El Salvador also allowed FOMIR/DAI to assist the institutions in all aspects of financial and crisis management, not just those loans or problems that involved rural clients.

FOMIR/DAI assistance included a series of workshops and meetings to discuss and plan strategies to cope with the crisis, assistance in planning client surveys and assessing damage, direct assistance in measuring and analyzing impact and identifying weaknesses and responses, and assistance in developing new products and services to meet the changed needs of the microfinance clients.

The MFIs involved responded with positive and effective strategies to help clients rebuild while protecting the financial stability of the institutions themselves. All of the MFIs mobilized donations of food, clothing and minimal shelter for their most affected clients. No institution "forgave" loans. Some reduced the interest rates on the loans of affected clients. Some offered new loans at reduced rates to meet reconstruction needs. All institutions rescheduled the loans of affected clients on a case-by-case basis.

In summary, although the earthquakes had a major and traumatic impact on the institutions and their operations, as well as their clients, they survived the earthquakes with no failures and in relatively sound financial health. Without a control group or a much more detailed study, we cannot say if the MFIs would have responded as well as they did, or if they would have suffered more severe consequences without the assistance they received during the crisis. We can, however, say that a sustained, coordinated effort helped the MFIs understand the nature of the problems they faced and develop strategies that proved effective for managing the crisis.

IMPACT ON THE MICROFINANCE INDUSTRY

What started as a bowling tournament in 2001, ended as a national microfinance conference attended by 90 plus institutions and 200 participants in August 2003. Although not part of the initial design of the project, USAID efforts to consolidate the numerous microfinance institutions and stakeholders has lead to **the emergence of El Salvador's microfinance industry.**

Dr. Glen Westley of the IDB argues[9] that first generation financial reforms were those which eliminate interest rate controls, free bank entry, dismantle targeted credit programs, privatize and close state banks, and reduce reserve requirements toward prudential levels. Dr. Westley argues persuasively that it is time to launch a second generation of financial reforms meant to capitalize on this favorable macrofinancial environment and complete the task of making financial services available to most or all credit-worthy microenterprises in Latin America and the Caribbean. His second generation reforms include: improving regulation and supervision of microfinance institutions, improving the legal framework for secured transactions and modernizing supporting institutions, reducing informality, establishing or strengthening credit bureaus, and improving the legal and regulatory framework for leasing and factoring.

Today, as a result of numerous USAID financed "industry building activities", Managers and Directors of local MFI recognize the value in developing sector-wide initiatives to address common problems.

USAID's creation of **MicroEnfoque,** the quarterly newsletter that provides information to the sector on the supply and potential demand for microfinance throughout the country is used by 50 MFIs to plan expansion strategies.

USAID's ongoing commitment to development of local market-oriented **credit bureaus** has demonstrated real commercial success with two local bureaus, Dicom/Equifax and Infored, competing for institutional clients based on commercial terms.

MFIs and their audit firms have adopted stricter accounting guidelines and audit processes as a result of USAID's expectation **for increased transparency** in the sector.

With USAID support, FOMIR/DAI expanded **coordination** efforts in the sector, providing information on partner MFIs to the BMI, IDB, BCIE and donors. FOMIR/DAI has facilitated numerous introductions of potential investors with selected MFIs, and initiated planning meetings for sector wide training courses. USAID's capitalization program of $1.7 millions helped 4 MFIs increase their equity and thereby **leverage $6.4 million in additional capital** from local banks and international investors managing developing economy funds.

---

[9] See "Can Financial Market Policies Reduce Income Inequality?" by Dr. Glen D. Westley, reference no: MSM-112, Inter-American Development Bank

FOMIR's Marketing Intelligence Unit

Although not included in the original project design, USAID and FOMIR/DAI agreed to expand the project's coordination effort in the microfinance sector through creation and staffing of the Marketing Intelligence Unit (MIU). The MIU was created in 2001 to provide the partner microfinance institutions, as well as the broader microfinance industry stakeholders (other MFIs, donors, policymakers and technical assistance providers), with market information upon which they can base strategic and operational decisions in an increasingly competitive market.

The initiative grew out of the data collection FOMIR/DAI conducts as part of the monitoring and evaluation of the grantee institutions. Primarily, the MIU has been responsible for **collecting, verifying, and processing performance indicators for USAID** and project management staff. Over the three years, the MIU has worked to ensure the outreach and financial data collected from FOMIR/DAI grantees accurately reflects the situation of the institutions by strengthening our own verification and analysis capacity as well as the external audits of the microfinance institutions.

The process of gathering, processing and analyzing data from participating institutions began with the creation of an Access system to receive all the data from the institutions. Access software was selected based on its flexibility and ability to create queries and reports, tables and interaction with map-creating software. As of June 2003, the system holds the more than 850,000 credit records, and more than two years of credit history for the eleven institutions. The main reports among others that can be printed from the system are:

- Number of credits by municipality by institution
- Number of credits by department
- Number of credits by institutions

With the information obtained from the system a set of indicators, tables, maps and other materials were created to be presented in quarterly reports. All indicators were based on international standards, mainly based on CGAP standards for microfinance institutions. Each year these indicators and the calculations were reviewed by an international consultant who was in charge of verifying the institutions' external audits to check for inconsistencies and truthfulness of the numbers. The **June 2003 Indicators Table** on the following page provided a complete list of the indicators tracked by FOMIIR on a quarterly basis.

June 2003 Outreach Indicators	AMC	Calpiá	Duarte	ASEI	Integral	CAM	Agrícola	Salvadore.	Acacsem.	ACACU	ACCOVI	Totals
Number of total credits	5,676	40,005	2,893	6,376	14,769	21,281	1,633	2,793	2,685	4,436	5,148	107,695
Number of MF credits	5,676	40,005	2,893	6,376	14,769	21,281	1,633	2,793	1,474	1,156	1,507	99,563
Number of total clients	5,544	39,226	2,888	6,325	14,678	20,860	1,485	2,568	2,337	4,262	4,826	104,999
Number of MF clients	5,544	39,226	2,888	6,325	14,678	20,860	1,485	2,568	1,459	1,008	1,478	97,519
% of change from last quarter	6.04%	8.29%	(5.22%)	1.92%	1.54%	2.46%	(9.67%)	17.37%	6.42%	14.03%	41.17%	7.23%
% of change from baseline	305.26%	100%(a)	100%(a)	118.86%	1491.97%	(1.78%)	100%(a)	2393.20%	100%(a)	100%(a)	100%(a)	294.35%
Number of rural clients	5,544	9,008	1,519	3,802	9,249	14,515	1,294	1,576	1,457	997	1,437	50,398
% of change for rural clients from last 1/4	6.04%	169.54%	(3.80%)	2.29%	3.75%	2.41%	(14.53%)	14.62%	6.58%	13.81%	42.00%	5.70%
% of change for rural clients from baseline	305.26%	100%(a)	100%(a)	342.09%	1399.03%	(6.38%)	100%(a)	1430.10%	100%(a)	100%(a)	100%(a)	173.13%
% of rural clients from the total clients	100.00%	22.96%	52.60%	60.11%	63.01%	69.58%	87.14%	61.37%	99.86%	98.91%	97.23%	48.00%
Target for rural clients	5,200	4,345	1,425	3,791	9,163	16,500	2,372	2,500	1,500	1,300	1,350	49,446
% of achievement for rural clients target	106.62%	207.32%	106.60%	100.29%	100.94%	87.97%	54.55%	63.04%	97.13%	76.69%	106.44%	101.93%
Number of new rural clients	4,176	9,008	1,519	2,942	8,632	-989(c)	1,294	1,473	1,457	997	1,437	31,946
Number of new urban clients (b)	0	0	1,369	493	5,124	612	191	992	0	11	41	8,833
Number of new total clients	4,176	9,008	2,888	3,435	13,756	-377(c)	1,485	2,465	1,457	1,008	1,478	40,779
Number of credits < $400	1,957	1,925	990	3,708	3,835	11,807	367	727	417	212	414	26,359
Number of new credits < $400	1,608	1,925	990	2,819	3,779	-2,308 (c)	367	727	417	212	414	10,950
% of change for credits < $400 from last 1/4	4.69%	25.57%	(4.72%)	5.73%	5.07%	1.80%	0.55%	13.77%	(14.90%)	32.50%	79.22%	5.03%
% of rural credits from the total < $400	35.30%	21.37%	65.17%	97.53%	41.46%	81.34%	28.36%	46.13%	28.62%	21.26%	28.81%	52.30%
Number of credits > $5000	57	227	30	0	208	14	28	124		94	147	929
% of credits > $5000	1.00%	2.52%	1.04%	0.00%	1.41%	0.07%	1.71%	4.44%	0.00%	8.13%	9.75%	0.93%
Number of municipalities with clients	78	33	71	173	150	203	116	98	12	51	68	203
% of municipalities from the country's total	29.77%	12.60%	27.10%	66.03%	57.25%	77.48%	44.27%	37.40%	4.58%	19.47%	25.95%	77.48%
Number of total agencies/branches	7	18	6	5	13	7	18	26	2	3	4	109
Number of rural branches	7	13	2	3	7	6	14	16	2	3	4	77
Number of new rural branches	6	6	2	2	2	2	14	13	1	0	0	48

(a) Baseline for this institution was zero

(b) All municipalities excluding the 13 great San Salvador municipalites.

(c) CAM has lost clients based on Baseline

Notes:

For AMC and ACACSEMERSA all clients are considered rural

For Calpia Only Ahuachapán and Metapán are counted and rural clients from the agriculture/microfinance credit line.

Integral numbers do not present housing credits

June 2003 Financial / Productivity Indicators	AMC	Calpiá	Duarte	ASEI	Integral	CAM	Agrícola	Salvadore.	Acacsem.	ACACU	ACCOVI	Totals
Average loan disbursed	$867	$1,158	$574	$198	$823	$330	$1,122	$1,282	$1,516	$2,117	$3,097	$1,190
Minimum amount disbursed	$92	$25	$21	$60	$30	$11	$114	$75	$25	$57	$40	$11
Maximum amount disbursed	$15,000	$67,400	$13,487	$2,057	$34,286	$5,000	$10,000	$43,429	$35,000	$37,000	$90,000	$90,000
Portfolio at risk past 30 days	8.58%	2.21%	10.79%	10.35%	6.92%	10.61%	6.68%	2.08%	4.51%	8.05%	22.83%	6.92%
Portfolio at risk past 90 days	4.42%	1.54%	7.71%	6.83%	4.49%	4.14%	2.13%	0.54%	2.19%	5.00%	14.59%	4.29%
Operational sustainability	103.06%	106.93%	68.51%	84.96%	104.59%	128.22%	100%(e)	100%(e)	117.80%	118.55%	117.12%	105.53%
Financial sustainability	101.14%	99.97%	68.34%	82.12%	103.82%	118.76%	100%(e)	100%(e)	105.86%	112.39%	111.58%	100.44%
Outstanding MF portfolio amount (d)	$3,255.88	$53,304.91	$1,070.96	$643.40	$9,640.78	$3,855.30	$1,182.42	$2,667.39	$1,643.65	$1,670.18	$2,343.16	$81,278.03
Outstanding MF portfolio / total assets	70.51%	84.90%	79.99%	69.31%	74.87%	74.11%	(f)	(f)	42.84%	15.27%	11.68%	58.17%
Number of MF credit officers	21	123	17	35	77	84	29	32	4	6	8	436
Total number of institution's MF staff	36	345	52	53	134	136	32	39	12	34	13	886
Credit officer productivity by MF clients	264	319	170	181	191	248	51	80	365	168	185	224
Credit officer productivity by MF portfolio (d)	$155.04	$433.37	$63.00	$18.38	$125.20	$45.90	$40.77	$83.36	$410.91	$278.36	$292.90	$186.42
Total staff productivity by MF clients	154	114	56	119	110	153	46	66	122	30	114	110
Total staff productivity by MF portfolio (d)	$90.44	$154.51	$20.60	$12.14	$71.95	$28.35	$36.95	$68.39	$136.97	$49.12	$180.24	$91.74
Percentage of credit officers from MF staff	58.33%	35.65%	32.69%	66.04%	57.46%	61.76%	90.63%	82.05%	33.33%	17.65%	61.54%	49.21%
Outstanding portfolio amount (d)	$3,255.88	$53,304.91	$1,070.96	$643.40	$9,640.78	$3,855.30	$1,182.42	$2,667.39	$2,720.31	$8,737.58	$14,755.84	$101,834.77
Outstanding portfolio amount / total assets	70.51%	84.90%	79.99%	69.31%	74.87%	74.11%	(f)	(f)	70.90%	79.89%	73.56%	75.34%
Total number of credit officers	21	123	17	35	77	84	29	32	5	9	10	442
Total number of institution's staff	36	345	52	53	134	136	32	39	29	63	85	1,004
Credit officer productivity by clients	264	319	170	181	191	248	51	80	467	474	483	238
Credit officer productivity by portfolio (d)	$155.04	$433.37	$63.00	$18.38	$125.20	$45.90	$40.77	$83.36	$544.06	$970.84	$1,475.58	$230.40
Total staff productivity by clients	154	114	56	119	110	153	46	66	81	68	57	105
Total staff productivity by portfolio (d)	$90.44	$154.51	$20.60	$12.14	$71.95	$28.35	$36.95	$68.39	$93.80	$138.69	$173.60	$101.43
% of credit officers from total staff	58.33%	35.65%	32.69%	66.04%	57.46%	61.76%	90.63%	82.05%	17.24%	14.29%	11.76%	44.02%

(d) Amounts in thousands
(e) Operational and financial sustainability is supposed to be 100% or more, because if where less the SSF would have to intervine.
(f) This indicator is not measure for banks since no separation exist for MF assets department.

Notes:
Average loan disbursed is a simple average, not a weighted average
Total Portfolio at risk past 30 and 90 days is a weighted average

After summarizing the data, FOMIR prepared a quarterly feedback letter that was sent to each institution with a brief analysis of the indicators and the errors and problems found related to the data received.

To verify the validity of the data received from partner MFIs, FOMIR conducted regular visits to the clients and the institutions. Over the life of the project, nearly 10,000 credit files have been reviewed to corroborate client information, gender, amount disbursed, and location/municipalities. At the same time, visits to approximately 1,200 clients have been made. The percentage of errors found among files and clients is below 1% on average for all institutions. All errors found were corrected by the institutions and some new practices were applied to avoid future errors, for example some institutions included validations in their software systems to avoid misspelling of municipality's names or gender.

From the data obtained in the visits the following information can be derived:

- 38% of the visits were made to the eastern zone of the country, mostly Morazán; 35% to the western zone, primarily Ahuachapán and the remaining 27% was made to the central region, visiting the earthquake affected departments.
- 73% of clients visited are women.
- 19% of clients visited are under 30 years old, 45% of clients visited are under 40 years old, and the remaining 36% are over 40 years old.
- 25% of the clients receive remittances.
- 94% of loans given to these clients are for working capital, 4% for Housing and the remaining 2% for consumer loans

MicroEnfoque

During the life of the project, FOMIR has gone beyond this initial monitoring effort, and now tracks and calculates additional indicators, incorporates new institutions into its database, and makes this information available to a wide audience in a quarterly newsletter available in print and on the Internet. Using the outreach data gathered for USAID indicator monitoring and data from the microcredit portfolios of partner MFIs and other micro credit providers, the MIU created ***MicroEnfoque,*** the Salvadoran microfinance market information bulletin.

The publication has established itself as a trustworthy and useful source of market information for the industry. The bulletin is disseminated on quarterly basis and includes statistical information loans outstanding, geographic locations of borrowers and special articles with information about market penetration, outreach, and productivity. The information contained in each bulletin is supported by data obtained directly from the institutions and is processed and verified to ensure the validity of information generated. The National Commission for the Micro and Small enterprises (CONAMYPE) and the General Direction of Statistic and Censuses (DIGESTYC) also provide information included in the bulletin.

As of June 2003, **31 institutions** are providing data on their microfinance portfolios which totals 147,230 micro credit loans. After consolidating and verifying the information, *MicroEnfoque* is delivered to **50 institutions** and it is posted in CONAMYPE's (Comisión Nacional de Micro y Pequeña Empresa) web page.

Many MFIs request and obtain additional copies or special reports on lending activity from FOMIR. For example, Banco Hipotecario and FUSADES have in the past requested additional copies of *MicroEnfoque* to be used for market analysis. Adel Morazan, ASEI and Enlace have requested detailed maps and geographic reports. Financiera Calpia requested the electronic version of the newsletter to be included in its web page. Local Universities have also requested the solicited and been provided market intelligence reports.

Promoting the Use of Credit Bureaus

Competition for clients often leads to increased credit risk for MFIs and clients with more debt than they can afford. To ensure the development of healthy portfolios, during 2002, FOMIR/DAI introduced an incentive scheme designed to promote the increased use of services offered by credit bureaus.

Letters of agreements were signed in 2002 between FOMIR/DAI, two Credit bureaus and nine partner institutions. These agreements required the MFIs to present their information to the credit bureaus every 30 days. The incentive scheme in which FOMIR paid for the cost of a three-month trial period created competition among the credit bureaus to improve the quality of their services.

INFORED, a specialized credit bureau for microfinance institutions, offered better pricing terms to the participant institutions in an attempt to gain market share. At the beginning of the trail period, INFORED serviced only two institutions. By the end of the trail period they had contracted with six additional MFIs who requested information on 4,082 potential clients. As of June 2003, INFORED serviced 10 institutions with more than 8,300 inquiries. As a result, INFORED reached financial sustainability and developed new products to offer to the institutions. With the exception of the banks, which due to banking secrecy law, cannot provide client information to INFORED, all the institutions offered the information from their portfolios to INFORED as stated in the agreements; this has improved the effectiveness of consultations. FOMIR/DAI helped INFORED to create a model contract to service regulated institutions, with this new contract, the regulated institutions can now send their information to the credit bureau under the Superintendent of Financial Services approval.

Critical to ongoing success is InfoRed's ability to increase the number of client records stored in their systems, as they currently report that 6 of every 10 inquiries are for client credit history not stored in their data base.

Another achievement for this area has been that DICOM-Equifax, the other credit bureau that participated in this plan. DICOM developed ongoing relationships with five partner institutions as a result of the incentive scheme and has targeted the microfinance market as a new growth area of the company. To position itself, DICOM has developed new products, has lowered prices and it is offering new packages to the institutions.

Strengthening External Audits for Microfinance Institutions

Strengthening audit standards and working with local audit firms forms a third leg of FOMIR/DAI's efforts to strengthen local support services for microfinance institutions. The main objectives for this activity were to:

- Establish requirements and evaluate project participants' compliance with external audit requirements, these requirements were communicated during 2001 and 2002, through workshops and personal visits, and recently in August 2003 during the final meeting held with the institutions.
- Communicate important aspects of USAID audit requirements, which will be in effect for those participants receiving asset and capitalization funds.
- Evaluate the competence of the external auditors via a review of their work papers and provide training to strengthen portfolio reviews,
- Report and communicate items pending, next steps, and recommendations with respect to the audit compliance.

To conduct this activity, an international consultant/auditor was hired to review and guide the MFIs on ways to strengthen their audit processes and reports. The consultant provided the basis for sound audit procedures in a first workshop held in 2001 for MFIs and their auditors, and then made follow up visits in 2002 and 2003 to check compliance with the requirements.

After reviewing the audited financial statements for 2002, the consultant highlighted a noticeable improvement made by the institutions and their auditing firms. All have accepted the advice given by FOMIR/DAI and have strengthened their external and internal audits procedures.

The consultant/auditor review and formal opinion on the MFI audits reviewed provided the core foundations for FOMIR's recommendation to transfer assets to the partner institutions.

Building the Microfinance Industry

Microenterprise owners, rural and urban, do and will continue to benefit from the emergence of a strong and competitive microfinance industry. Over the past five years, USAID investment in developing sustainable financial institutions has indirectly resulted in the emergence and empowerment of local stakeholders (individuals and institutions) who share a common understanding of the importance of micro and small enterprise in the ongoing development of the country, and who recognize that both individual and collective action will be required to address the growing needs of the sector.

Since mid 1999, USAID has, on annual basis, conducted and or contributed to numerous seminars and training courses that address sector wide issues. Starting in late 2002, FOMIR initiated three sector-building event designed to improve coordination.

On October 2, 2002 FOMIR facilitated a workshop for partner financial institutions that serve the Salvadoran microenterprise market in order to identify and prioritize trends likely to impact the microfinance industry within the next three to five years. The workshop was a preliminary step towards determining whether there is cause for competing institutions to work together on specific industry-level issues they are likely to face in the future. During the workshop, MFI directors identified common and interrelated themes, and suggested potential collective initiatives for further discussion. These included:

- competition for clients,
- limited pool of candidates for employment in the growing MF industry,
- limited access to funds for information, communications and technology required to be competitive and
- lack of clarity on requirements for regulation under the new law and capacity of the Superintendent to monitor the industry.

On January 30, 2003 FOMIR facilitated a follow-up workshop for partner financial institutions and other actors in the microfinance industry in El Salvador. The *Associativeness* Workshop, as it was called, was meant to convey the notion that institutions can increase their individual competitiveness, and that of the industry, through collective action. The objectives of the workshop were to review issues that participants prioritized in the October 2002, and examine potential collective action to deal with high priority trends and establish preliminary action plans. Participants discussed the following issues:

Clients and Market Information: The main challenge identified was the need to increase access to sector information by financial institutions (for market studies), government (to launch programs in the sector), donors and international organizations (to orient assistance and programming), and clients (since improved understanding of their needs may lead to improved services). Participants recommended improved nation-wide market information starting with research all available data sources, including government data and data available from financial institutions and present results of research at a meeting of those interested in the topic.

Human Resources and Training: The general lack of qualified microfinance staff is the key challenge that institutions face in human resources. Participants recommended working with microfinance service providers, training centers, universities and government programs (e.g. BMI and CONAMYPE sponsored programs) to ensure that human resources capacity building efforts respond directly to the needs of the institutions.

Regulation and Supervision: A key challenge facing the sector is the need to improve understanding of the laws pertaining to financial institutions, and to establish self-regulation mechanisms. Recommendations included the need for more workshops on understanding the law, and meeting with the SSF to establish a constructive dialog between institutions and regulators.

The culmination of USAID effort over the last five years was evident in the recently conducted national microfinance conference **(Constuyendo La Industria Microfinanciera Competitiva En El Salvador)** held in August in conjunction with BMI, Conamype, Fundamicro and ASOMI. A few of the key recommendations from the conference are listed below:

- Focus government and donor assistance on expanding financial services to rural areas.
- Promote the creation of a microfinance industry round table with representation of government and other actors that play an important role in the coordinating financial assistance, institutional development, and technical assistance.
- Develop mechanisms that allow the sharing of information and benchmarks related to the industry by ALL actors. Create standards oriented towards providing information regarding the industry performance.
- Establish policies and mechanisms that allow and promote the sharing of risk management information among regulated and non-regulated MFIs and transparency among the various actors that comprise the microfinance industry.
- Improve physical infrastructure, services, education, and health nationwide.

The workshop was attended by 200 participants from more than 90 institutions throughout the country.

RECOMMENDATIONS

Future Requirements of MFI Development

Below is a listing of recommendations related to continued MFI development, strengthening of the sector and recommendations on disaster relief programming.

Expanding MFI Outreach: Although not all MFIs assisted achieved targets, FOMIR believes that USAID focus on increased number of rural clients provided project and MFI management with a clear objective to use in determining access to resources. Without question, 10 of the 11 MFIs remain committed to continued expansion of their rural portfolios. FOMIR believes that the credit union - Acacsemersa still is hesitant in allocating real management resources to grow the microfinance portfolio. USAID assistance in this area will accelerate services to poor rural families that rely on microenterprise activity for their income.

Field Officers: During the last three years, the number of field officers among partner institutions has grown by 81%. In the next few years, FOMIR partner institutions should focus on improving efficiency, specifically in clients to loan officer. FOMIR believes that growth in number of credit officers will continue but at a limited pace during the next few years. USAID assistance should be directed toward development of ongoing training programs with emphasis on certifying credit officers.

Points of Service: FOMIR and partner MFI believe that there may still be significant demand not only for new credit, savings and other financial and fee-based products in presently well-served markets, but also for a full array of services in areas outside the urban centers within Departments. Strong rural market response to Calpia's new agriculture/microenterprise product line suggests unmet demand in the sector. The challenge facing partner MFI is no longer where and when to open new points of service, but how use the base of operations to expand service to rural clients (farm families) who reside and engage in economic activities outside the urban centers.

Products: More work needs to be done in deepening the supply of finance to poor rural families Whereas microfinance lending techniques have been well developed over the past several years, most loans tend to be for commerce. USAID should build on the successful product development efforts under way with Calpia to support increased innovations in rural financial product development by the other partner MFIs. This will contribute directly to the missions focus on alleviating rural poverty.

In line with future emphasis on trade promotion, product development assistance to expand competition for small business loans among partner MFIs will also be required. Credit techniques used for small business lending differs from techniques used to finance microenterprise. Loans to small businesses tend to be expensive to make and administer. They also are of a higher risk profile than micro or large loans. FOMIR believes that regulated and non-regulated financial institutions would benefit from increase assistance in this area. Not only will financial institutions need incentives to stimulate increased lending to the rural small business market, but they will also require technical assistance and some risk management tools to develop or strengthen this line of business. The benefits to USAID of supporting the small business sector would be measurable in terms of economic growth, increased employment and increased regional trade.

Status of New Systems: Although significant progress has been made, it would be misleading to suggest that each of these systems would be firmly established and fully functional in each of the MFIs at the end of the project. Even the two commercial banks and Calpia continue to modify their financial reporting systems to produce required management and regulation reports. As financial institutions expand coverage and offer new products, USAID should anticipate that the MFIs will require additional technical assistance in the areas of information and communication technology.

When MFIs use their available resources to manage or grow their institutions, there is often a shortage of time to keep pace with the latest developments and funds for new technologies. For both of these reasons, USAID has a role to play in introducing new ideas and technologies and facilitating their implementation. A few institutions have begun to provide credit card or smart cards to the microenterprise sector. Others are considering the use of hand held devices to improve efficiency. All the MFIs are grabbling with communication issues between branches. Future USAID support in this area will benefit MFIs and their clients with expanded rural coverage and lower cost of servicing the sector.

To Regulate or Not to Regulate: Over the next two years, USAID can contribute significantly to the sustainability of the micro and small business finance industry by providing direct technical assistance to institutions considering changes in status and those institutions who are applying for regulated status.

MFI Assistance After FOMIR: To continue to expand outreach to the rural poor and re-establish the rural sector in El Salvador, USAID should continue to provide assistance to:

- Expand service to rural clients (farm families) who reside and engage in economic activities outside the urban centers;
- Develop innovative, rural financial products that will deepen the supply of credit to rural families;
- Expand competition for rural small business loans among partner MFIs;
- Strengthen and/or adopt new information and communication technologies that will benefit MFIs and their clients with expanded rural coverage and lower cost of servicing the sector; and
- Provide direct technical assistance to institution considering change in status and those institutions who are applying for regulated status.

Recommendation for Disaster Response

Literature on disasters for microfinance postulates that a number of things might happen to an MFI in the aftermath of a major natural disaster. The experience of the FOMIR assisted MFIs related to these consequences can be summarized as follows:

1. *Delinquency will rise as affected clients are less able to pay, and loan losses will increase.* Delinquency did rise in the short run, but was kept manageable by a close monitoring of the portfolios, careful attention to clients, and adapting loan schedules and payments to the needs of the clients. The clients, in turn, covered many payments with savings or remittances. And, as a result, loan write-offs were negligible.

2. *The institution's portfolio will decline as delinquencies rise and loans are written off*. Portfolios did decline for three of the institutions and remained at depressed levels for the first 11 months of 2001. This was due as much to a declining demand for credit as to delinquency.

3. *Income will decline as delinquency increases*. Income did fall, and then remain stagnant for three of the institutions, but not to the extent of jeopardizing their financial stability.

4. Savings deposit growth will slow or turn negative, as clients use surplus cash to rebuild their homes and other assets; clients may withdraw savings. Savings did fall in the village banking programs, as clients used their "internal savings" or "cuentas comunes" to cover delinquency problems in the short run. Calpiá's savings program, which had grown rapidly in the year prior to the earthquakes, stopped growing for the entire 2001 year.

5. *Loan demand will increase, as clients need additional cash to replace destroyed or damaged assets.* Loan demand did not increase immediately following the earthquakes, as clients were reluctant to take on additional debt, and many waited for donations before beginning to reconstruct assets on their own.

6. *Because of the reduction in net savings and increase in loan demand, small financial intermediaries will face liquidity problems.* None of the institutions faced liquidity problems because of reduced savings and increased loan demand. Calpiá did need liquidity to cover its reserve requirements for rescheduled loans, but this was a very short-term need that was covered by a USAID guaranty.

The major lesson for projects and donors is that they should not panic in the face of a widespread disaster, but should take the time to appraise the situation and understand the nature and magnitude of the crisis before crafting a response. That response must be carefully designed to reinforce and strengthen the underlying business principles of the microfinance institutions. To make sure that lessons learned in respect earthquake response are institutionalized, FOMIR produced and distributed to 40 MFIs an emergency response manual titled: ***The First 30 Days – A Guide for Managing Microfinance Institutions Following a Natural Disaster.***

BUDGET ALLOCATIONS

Grant Budget for 11 Partner MFIs	Final Expenditure	Percentage of Budget
Training and Technical Assistance	$3,036,749	45%
Capitalization Fund	$1,717,151	25%
Computers and Software	$1,158,304	17%
Equipment and Rural Agency Refurbishing	$ 767,385	11%
Operating Expenses Project Related	$ 73,896	1%
TOTAL	**$6,753,485**	100%
IVA Reimbursed	$ -90,564	
Net Expended	$6,662,920	

Grant Budget for Special Fund	Final Expenditure	Percentage of Budget
Marketing Intelligence Unit	$ 192,689	32%
Training – Sector Based	$ 144,100	24%
Special Studies - New Law, Econ Ops, etc.	$ 154,321	26%
Information Technology Unit	$ 110,038	18%
TOTAL	**$ 601,148**	100%
IVA Reimbursed	$ - 8,061	
Net Expended	$593,086	

Grant Budget for Earthquake Response	Final Expenditure	Percentage of Budget
Productive Asset Grants to Beneficiaries	$1,137,329	61%
Technical Assistance to MFI Affected	$367,786	20%
Earthquake Resource for Initial Response	$241,709	13%
PAG Administration	$106,046	6%
TOTAL	**$1,852,870**	100%
IVA Reimbursed	$ -135,163	
Net Expended	$1,717,707	

Overall Grant Budget	Final Expenditure	Percentage of Budget
Grant Budget for 11Partner MFIs	$6,662,921	74%
Grant Budget for Special Fund	$593,086	7%
Grant Budget for Earthquake Response	$1,717,707	19%
TOTAL Expended	**$8,973,714**	100%
Total Grant Available	$9,004,856	
Amount Not Expended	$31,153	

ANNEX A:

OUTREACH AND SUSTAINABILITY INDICATORS FOR SEPTEMBER 30, 2003

FOMIR/DAI

FOMIR/DAI Outreach Indicators As of the End of the Project

Corresponding to: September 30, 2003

	Rural Active Borrowers			Women Rural Active Borrowers			
Institution	Baseline*	To 09/30/2003	Change	Baseline*	To 09/30/2003	Increase	% of women
Adel Morazán	1,368	5,841	4,473	811	3,616	2,805	61.91%
Financiera Calpiá(a)	0	10,673	10,673	0	1,753	1,753	16.42%
Fundación Duarte	0	1,547	1,547	0	1,239	1,239	80.09%
ASEI	860	3,645	2,785	705	3,103	2,398	85.13%
Integral	617	10,016	9,399	215	7,346	7,131	73.34%
CAM	15,504	12,703	(2,801)	12,403	10,275	(2,128)	80.89%
Banco Agrícola	0	1,458	1,458	0	1,029	1,029	70.58%
Banco Salvadoreño	103	1,865	1,762	0	1,521	1,521	81.55%
Acacsemersa	0	1,479	1,479	0	1,020	1,020	68.97%
Acacu	0	1,197	1,197	0	780	780	65.16%
Accovi	0	1,665	1,665	0	1,125	1,125	67.57%
	18,452	**52,089**	**33,637**	**14,134**	**32,807**	**18,673**	**62.98%**

(a) The number of total rural borrowers correspond to Ahuachapán, Metapán and agriculture/microfinance credit line, the number of women rural borrowers correspond only to Ahuachapán and Metapán only. The percentage of baseline women borrowers related to baseline total borrowers is 76.59%

	Rural Loans of $400 or Less						
Institution	Baseline*	To 09/30/2003	Change	Baseline*	Total Women	Increase	% to 09/30/2003
Adel Morazán	349	2,133	1,784	206	1,434	1,228	67.23%
Financiera Calpiá (b)	0	2,069	2,069	0	789	789	38.13%
Fundación Duarte	0	1,008	1,008	0	846	846	83.93%
ASEI	889	3,537	2,648	705	3,013	2,308	85.19%
Integral	56	4,032	3,976	22	3,385	3,363	83.95%
CAM	14,115	10,482	(3,633)	11,292	8,484	(2,808)	80.94%
Banco Agrícola	0	348	348	0	278	278	79.89%
Banco Salvadoreño	0	901	901	0	785	785	87.13%
Acacsemersa	0	551	551	0	414	414	75.14%
Acacu	0	281	281	0	219	219	77.94%
Accovi	0	409	409	0	324	324	79.22%
	15,409	**25,751**	**10,342**	**12,225**	**19,971**	**7,746**	**77.55%**

(b) Rural loans for Calpia correspond to Ahuachapán and Metapán Only. The percentage of baseline women rural loans under $400 related to baseline total loans under $400.00 is 79.34%

	Rural Active Depositors **						
Institution	Baseline*	To 09/30/2003	Change	Baseline*	Total Women	Increase	% to 09/30/2003
Financiera Calpiá (c)	0	1,703	1,703	0	968	968	56.84%
Banco Agrícola	0	1,564	1,564	0	1,120	1,120	71.61%
Banco Salvadoreño	0	1,691	1,691	0	1,452	1,452	85.87%
Acacsemersa	0	1,266	1,266	0	892	892	70.46%
Acacu	0	1,073	1,073	0	697	697	64.96%
Accovi	0	1,450	1,450	0	1,001	1,001	69.03%
	0	**8,747**	**8,747**	0	**6,130**	6130	**70.08%**

(c) Rural loans for Calpia correspond to Ahuachapán and Metapán Only.

* The baselines total borrowers and for women borrowers were obtained from data received from the MFI's as per dates: CAM May 31, 2000; Banco Salvadoreño July31, 2000; Banco Agícola October 1, 2001;Acacsemersa July 31, 2001, Acacu October 31, 2001; Accovi January 31, 2002; for the rest of the institutions is July 31,1999

** The number of depositors for Banco Agrícola, Banco Salvadoreño, Acacsemersa, Acacu and Accovi is calculated based on the number of new rural clients of active microcredit loans with deposit accounts.

*** Accovi and Banco Salvadoreño started reporting savings in March 31, 2002.

FOMIR/DAI

FOMIR/DAI Financial indicators As of the End of the Project

corresponding to: September 30, 2003

	Sustainability	
Institution	Operational	Financial
AMC	103.57%	102.35%
Financiera Calpiá	115.05%	114.05%
Fundación Duarte	72.23%	71.42%
ASEI	84.45%	82.09%
Intergral	102.96%	102.04%
CAM	113.28%	112.09%
Banco Agrícola	100.00%	100.00%
Banco Salvadoreño	134.95%	117.58%
Acacsemersa	111.69%	106.57%
Acacu	119.01%	115.96%
Accovi	128.15%	123.65%

Data to measure sustainability is taken from internal management control's financial statements
Financial cost is included in the operational sustainability indicator.
Financial sustainability includes adjustment for shadow cost and inflation rate adjustment and bad loan reserves adjustment

Rural Active Savings **					
Institution	Baseline*	To 09/30/2003	Change	Total Women	% to 09/30/2003
Financiera Calpiá***	$181,870.58	$350,891.40	$169,020.82	$102,401.96	29.18%
Banco Agrícola	$252,183.00	$259,414.48	$7,231.48	$195,655.06	75.42%
Banco Salvadoreño	$153,275.00	$282,825.00	$129,550.00	$200,805.75	71.00%
Acacsemersa	$133,151.00	$164,386.00	$31,235.00	$125,188.00	76.15%
Acacu	$73,706.00	$96,838.00	$23,132.00	$45,013.00	46.48%
Accovi	$93,260.00	$141,560.00	$48,300.00	$97,833.00	69.11%
	$794,185.58	**$1,295,914.88**	**$408,469.30**	**$669,063.77**	**51.63%**

	Delinquency	
Institution	More than 30 days	More than 90 days
Adel Morazán	6.31%	3.92%
Financiera Calpiá	1.94%	1.36%
Fundación Duarte	9.94%	7.13%
ASEI	11.28%	8.14%
Integral	6.86%	3.32%
CAM	6.17%	3.00%
Banco Agrícola ****	5.45%	3.28%
Banco Salvadoreño ****	2.78%	0.70%
Acacsemersa	4.24%	1.88%
Acacu	14.24%	11.44%
Accovi	17.63%	11.11%

* The baselines are as of June 30, 2003

** The amounts of savings for Banco Agrícola, Acacsemersa, Acacu and Accovi is calculated based on the number of new rural clients of active microcredit loans with deposit accounts.

*** The amounts of savings for financiera calpia correspond to the depositors in the two branches Ahuachapán y Metapán

**** The delinquency rate for Banco Agrícola and Banco Salvadoreño correspond only to microfinance portfolio, for the rest of the institutions correspond to the whole portfolios.

September 2003 Outreach Indicators	Totals	AMC	Calpiá*	Duarte	ASEI	Integral**	CAM	Agrícola	Salvadore.	Acacsem.	ACACU	ACCOVI
Number of total credits	119,504	5,918	50,260	3,180	5,959	15,481	19,229	1,609	5,584	2,627	4,512	5,145
Number of MF credits	109,502	5,918	50,260	3,180	5,959	15,481	19,229	1,609	3,087	1,661	1,307	1,811
Number of total clients	109,871	5,841	42,376	2,939	5,929	15,292	18,950	1,594	5,584	2,355	4,308	4,703
Number of MF clients	100,445	5,841	42,376	2,939	5,929	15,292	18,950	1,594	3,087	1,480	1,277	1,680
Number of rural clients	52,089	5,841	10,673	1,547	3,645	10,016	12,703	1,458	1,865	1,479	1,197	1,665
Number of New Rural Clients	33,637	4,473	10,673	1,547	2,785	9,399	(2,801)	1,458	1,762	1,479	1,197	1,665
% of change for rural clients from baseline	182.29%	326.97%	100%(a)	100%(a)	323.84%	1523.34%	(18.07%)	100%(a)	1710.68%	100%(a)	100%(a)	100%(a)
% of rural clients from the total only MF clients	51.86%	100.00%	25.67%	52.64%	61.48%	65.50%	67.03%	91.47%	60.41%	99.93%	93.74%	99.11%
Target for rural clients	56,104	6,000	8,420	1,550	4,016	9,245	16,600	2,585	2,913	1,750	1,550	1,475
% of achievement for rural clients target	92.84%	97.35%	126.76%	99.81%	90.76%	108.34%	76.52%	56.40%	64.02%	84.51%	77.23%	112.88%
Number of credits < $400	25,751	2,133	2,069	1,008	3,537	4,032	10,482	348	901	551	281	409
Number of new credits <$400	10,342	1,784	2,069	1,008	2,648	3,976	(3,633)	348	901	551	281	409
% of change for rural clients from baseline	67.12%	511.17%	100%(a)	100%(a)	297.86%	7100.00%	(25.74%)	100%(a)	100%(a)	100%(a)	100%(a)	100%(a)
% of rural credits from the total < $400	49.44%	36.52%	19.39%	65.16%	97.04%	40.26%	82.52%	23.87%	48.31%	37.25%	23.48%	24.56%
Number of credits > $5000	1,291	71	261	30	0	222	15	31	165	68	119	309
% of credits > $5000	1.27%	1.20%	0.62%	0.94%	0.00%	1.43%	0.08%	1.93%	5.34%	4.09%	9.10%	17.06%
Number of rural depositors	8,747	N/A	1,703	N/A	N/A	N/A	N/A	1,564	1,691	1,266	1,073	1,450
Number of new rural depositors	8,747	N/A	1,703	N/A	N/A	N/A	N/A	1,564	1,691	1,266	1,073	1,450
% of change for rural depositors from baseline	100%	N/A	100%	N/A	N/A	N/A	N/A	100%	100%	100%	100%	100%
Number of municipalities with clients	261	78	36	71	187	153	186	115	106	18	60	48
% of municipalities from the country's total	99.62%	29.77%	91.22%	27.10%	71.37%	58.40%	70.99%	43.89%	40.46%	6.87%	22.90%	18.32%
Number of total agencies/branches	108	7	18	6	5	11	7	19	26	2	3	4
Number of rural branches	77	7	13	2	3	7	6	14	16	2	3	4
Number of new rural branches	48	6	6	2	2	2	2	14	13	1	-	-

(a) Baseline for this institution was zero

Notes:

- Negative numbers means that institutions have lost clients from baselines
- The definition for rural is all municipalities from El Salvador, except the thirteen municipalities of Great San Salvador (Antigüo Cuscatlán, Santa Tecla, Apopa, Ayutuxtepeque, Ciudad Delgado, Ilopango, Mejicanos, Nejapa, San Marcos, San Martín, San Salvador, Soyapango, Cuscatancingo
- For AMC and ACACSEMERSA all clients are considered rural

* The number of total rural borrowers correspond to Ahuachapán, Metapán and agriculture/microfinance credit line. Credits below $400 are taken from Ahuachapán and Metapán only.

** Integral numbers do not present housing credits

September 2003 Total Financial / Productivity Indicators (urban&Rural)	Totals	AMC	Calpiá	Duarte	ASEI	Integral	CAM	Agrícola	Salvadore.	Acacsem.	ACACU	ACCOVI
Average loan disbursed	$ 1,190.74	$ 849.81	$ 1,193.23	$ 574.52	$ 200.71	$ 828.68	$ 325.84	$ 1,169.57	$ 1,345.95	$ 1,311.59	$ 2,276.00	$ 2,996.39
Minimum amount disbursed	$ 21.00	$ 92.00	$ 25.00	$ 21.00	$ 80.00	$ 50.00	$ 30.00	$ 115.00	$ 100.00	$ 23.00	$ 57.00	$ 23.00
Maximum amount disbursed	$ 90,000.00	$ 15,000.00	$ 67,400.00	$ 13,487.00	$ 2,057.14	$ 34,285.71	$ 5,216.00	$ 9,150.00	$ 74,522.86	$ 35,000.00	$ 69,397.00	$ 90,000.00
Portfolio at risk past 30 days	6.05%	6.31%	1.94%	9.94%	11.28%	6.86%	6.17%	5.45%	2.78%	4.24%	14.24%	17.63%
Portfolio at risk past 90 days	5.96%	3.92%	1.36%	7.13%	8.14%	3.32%	3.00%	3.28%	0.70%	1.88%	11.44%	11.11%
Operational sustainability	105.60%	103.57%	115.05%	72.23%	84.45%	102.96%	113.28%	100%(e)	100%(e)	111.69%	119.01%	128.15%
Financial sustainability	103.36%	102.35%	114.05%	71.42%	82.09%	102.04%	112.09%	100%(e)	100%(e)	106.57%	115.96%	123.65%
Outstanding MF portfolio amount (d)	$ 91,104.59	$ 3,303.19	$ 59,132.93	$ 1,179.83	$ 522.16	$ 10,239.68	$ 3,881.90	$ 1,241.93	$ 3,214.39	$ 1,810.31	$ 2,203.09	$ 4,375.19
Number of MF credit officers	447	26	144	22	17	76	80	31	33	4	6	8
Total number of institution's MF staff	991	64	358	50	45	186	140	44	43	12	33	16
Credit officer productivity by MF clients	223	225	289	134	349	201	237	51	94	370	213	210
Credit officer productivity by MF portfolio (d)	$ 203.81	$ 127.05	$ 410.65	$ 53.63	$ 30.72	$ 134.73	$ 48.52	$ 40.06	$ 97.41	$ 452.58	$ 367.18	$ 546.90
Total staff productivity by MF clients	101	91	116	59	132	82	135	36	72	123	39	105
Total staff productivity by MF portfolio (d)	$ 91.93	$ 51.61	$ 165.18	$ 23.60	$ 11.60	$ 55.05	$ 27.73	$ 28.23	$ 74.75	$ 150.86	$ 66.76	$ 273.45
Percentage of credit officers from MF staff	45.11%	40.63%	40.22%	44.00%	37.78%	40.86%	57.14%	70.45%	76.74%	33.33%	18.18%	50.00%
Outstanding portfolio amount (d)	$ 119,240.33	$ 3,303.19	$ 59,132.93	$ 1,179.83	$ 522.16	$ 10,239.68	$ 3,881.90	$ 1,241.93	$ 13,624.53	$ 2,692.69	$ 8,710.73	$ 14,710.77
Total number of credit officers	455	26	144	22	17	76	80	31	33	5	9	12
Total number of institution's staff	1,086	64	358	50	45	186	140	44	43	29	68	59
Credit officer productivity by clients	233	225	289	134	349	201	237	51	76	471	479	392
Credit officer productivity by portfolio (d)	$ 262.07	$ 127.05	$ 410.65	$ 53.63	$ 30.72	$ 134.73	$ 48.52	$ 40.06	$ 412.86	$ 538.54	$ 967.86	$ 1,225.90
Total staff productivity by clients	98	91	116	59	132	82	135	36	58	81	63	80
Total staff productivity by portfolio (d)	$ 109.80	$ 51.61	$ 165.18	$ 23.60	$ 11.60	$ 55.05	$ 27.73	$ 28.23	$ 316.85	$ 92.85	$ 128.10	$ 249.34
% of credit officers from total staff	41.90%	40.63%	40.22%	44.00%	37.78%	40.86%	57.14%	70.45%	76.74%	17.24%	13.24%	20.34%

(d) Amounts in thousands

(e) Operational and financial sustainability is more than 100% for the banks' microfinance programs. The real percentage can not be calculated because there are no costs centers and some equity and expenses accounts are not available.

Notes:

Average loan disbursed is a simple average, not a weighted average

Total Portfolio at risk past 30 and 90 days is a weighted average

FOMIR/DAI
25-Ago-03

LISTADO DE CLIENTES POR INSTITUCION Y MUNICIPIO AFECTADO POR EL TERREMOTO A JUNIO 2003

sig	departamen	municipio municipio	A S E I	B A	B S	C A M	ACCOVI	F U S A I	F J N D	Totales
501	ANTIGUO CUSCATLAN	LA LIBERTAD	11	5	14	201		48	13	292
502	CIUDAD ARCE	LA LIBERTAD	16	72	19	201	1	150	22	481
503	COLON	LA LIBERTAD	67	136	34	457	1	428	96	1219
504	COMASAGUA	LA LIBERTAD	5	1	1	4		6	1	18
505	CHILTIUPAN	LA LIBERTAD	4						3	7
506	HUIZUCAR	LA LIBERTAD	4			9		1		14
507	JAYAQUE	LA LIBERTAD	2	17		7		13		39
508	JICALAPA	LA LIBERTAD	4							4
509	LA LIBERTAD	LA LIBERTAD	90	1	28	295	1	316	97	828
510	NUEVO CUSCATLAN	LA LIBERTAD	3		7	2		3	1	16
511	NUEVA SAN SALVADOR	LA LIBERTAD	25	29	69	198	2	385	124	832
512	QUEZALTEPEQUE	LA LIBERTAD	8	134	48	310		217	101	818
513	SACACOYO	LA LIBERTAD	4	15	4	18		60		101
514	SAN JOSE VILLANUEVA	LA LIBERTAD	7		1			11	4	23
515	SAN JUAN OPICO	LA LIBERTAD	19	8	4	185		482	24	722
516	SAN MATIAS	LA LIBERTAD		2	1			11		14
517	SAN PABLO TACACHICO	LA LIBERTAD		5		3	1	59		68
518	TAMANIQUE	LA LIBERTAD	4			7		4	5	20
519	TALNIQUE	LA LIBERTAD	1	1		1		4		7
520	TEOTEPEQUE	LA LIBERTAD	3	1		1			1	6
521	TEPECOYO	LA LIBERTAD	2	20		1		6		29
522	ZARAGOZA	LA LIBERTAD	14		6	6		35	3	64
	Total La Libertad		**293**	**447**	**236**	**1,906**	**6**	**2,239**	**495**	**5,622**
701	CANDELARIA	CUSCATLAN	62		1	27	2	2		94
702	COJUTEPEQUE	CUSCATLAN	280	17	14	759	805	215	9	2099
703	EL CARMEN	CUSCATLAN		3		36	7	2		48
704	EL ROSARIO	CUSCATLAN	8			5	3	35		51
705	MONTE SAN JUAN	CUSCATLAN	20			7	2			29
706	ORATORIO DE CONCEPCION	CUSCATLAN				2				2
707	SAN BARTOLOME PERULAPIA	CUSCATLAN	4	1	1	22	1		1	30
708	SAN CRISTOBAL	CUSCATLAN	5			4		3		12
709	SAN JOSE GUAYABAL	CUSCATLAN	6		3	1		7		17
710	SAN PEDRO PERULAPAN	CUSCATLAN	30		1	51	6	7	4	99
711	SAN RAFAEL CEDROS	CUSCATLAN	58	1	8	32	14	5	2	120
712	SAN RAMON	CUSCATLAN	4	2		5	9	84		104
713	SANTA CRUZ ANALQUITO	CUSCATLAN				2	1	2		5
714	SANTA CRUZ MICHAPA	CUSCATLAN	24			9	9	3	2	47
715	SUCHITOTO	CUSCATLAN	2	1	2	6		110	1	122
716	TENANCINGO	CUSCATLAN	5			1				6
	Total Cuscatlán		**508**	**25**	**30**	**969**	**859**	**475**	**19**	**2,885**
801	CUYULTITAN	LA PAZ	1		26	12		2	1	42
802	EL ROSARIO	LA PAZ	18		1	116	9	11		155
803	JERUSALEN	LA PAZ			3		1			4
805	OLOCUILTA	LA PAZ	12	1	2	79		17	10	121
806	PARAISO DE OSORIO	LA PAZ	13			7	1	3		24
807	SAN ANTONIO MASAHUAT	LA PAZ	2			6	1	1		10
808	SAN EMIGDIO	LA PAZ				1	2	1		4
809	SAN FRANCISCO CHINAMECA	LA PAZ	5		1	3	2			11
810	SAN JUAN NONUALCO	LA PAZ	27		4	34	22	63	1	151
811	SAN JUAN TALPA	LA PAZ	3			33	4	6		46
812	SAN JUAN TEPEZONTES	LA PAZ			2	1				3
813	SAN LUIS TALPA	LA PAZ	6		5	151	14	7		183
814	SAN MIGUEL TEPEZONTES	LA PAZ	1				2	2		5
815	SAN PEDRO MASAHUAT	LA PAZ	2	1		177	10	94		284
816	SAN PEDRO NONUALCO	LA PAZ	1			41	5	8		55
817	SAN RAFAEL OBRAJUELO	LA PAZ	9		5	33	13	21		81
818	SANTA MARIA OSTUMA	LA PAZ	4			4	1	2		11
819	SANTIAGO NONUALCO	LA PAZ	43		3	160	21	87	1	315
820	TAPALHUACA	LA PAZ	2	1		10				13
821	ZACATECOLUCA	LA PAZ	249	2	1	649	1324	578	1	2804
822	SAN LUIS LA HERRADURA	LA PAZ	1		13	226	3	180		423
	Total La Paz		**399**	**5**	**66**	**1,743**	**1,435**	**1,083**	**14**	**4,745**
1001	APASTEPEQUE	SAN VICENTE	27		59	18	20	8		132
1002	GUADALUPE	SAN VICENTE	4	1			7			12
1003	SAN CAYETANO ISTEPEQUE	SAN VICENTE	5			6	16	1		28
1004	SANTA CLARA	SAN VICENTE	1			4	2			7
1005	SANTO DOMINGO	SAN VICENTE	33			18	4	1		56
1006	SAN ESTEBAN CATARINA	SAN VICENTE	8			5	14	16		43
1007	SAN ILDEFONSO	SAN VICENTE	2			2	2			6
1008	SAN LORENZO	SAN VICENTE	30			3	2			35
1009	SAN SEBASTIAN	SAN VICENTE	6	2		1	8	1		18
1010	SAN VICENTE	SAN VICENTE	137	3	1	492	2411	38	1	3083
1011	TECOLUCA	SAN VICENTE	7			111	27	138		283
1012	TEPETITAN	SAN VICENTE	17			4	4			25
1013	VERAPAZ	SAN VICENTE	22			6	6			34
	Total San Vicente		**299**	**6**	**60**	**670**	**2,523**	**203**	**1**	**3,762**

ANNEX B:

Counterpart Contribution Report and Financials